Cornish Mutual

Insurance that keeps its word


# Solvency and Financial Condition Report

30 September 2019

# Summary

Cornish Mutual manages the business in a prudent manner for the benefit of Members. We price our products on a technical and consistent basis to deliver stable, fair premiums to Members while delivering a return that supports an appropriate level of Members' Funds over a five year planning period. Investment returns form an intrinsic part of the financial performance, utilising capital surplus' to take investment risk and generate returns.

The overall sources of profit and loss contributing to changes in Members' Funds are shown below.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Technical Profit | (842) | 389 |
| Other charges | (1,090) | (981) |
| **Underwriting result** | **(1,932)** | **(592)** |
| Investment income net of fair value adjustments | 591 | 270 |
| Tax | 0 | 177 |
| Pension adjustments net of tax | (343) | (293) |
| **Change in Members' Funds** | **(1,684)** | **(438)** |

Members' funds have decreased by £1.7m during the year to £21.3m on a GAAP basis.

On a Solvency II basis Members' Funds which represent the total of own funds decreased to £23.2m from £24.8m*. All own funds are eligible to cover the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR).

The ratio of Own Funds to the SCR is 223%, a decrease from last year's figure of 245%. There are no volatility or matching adjustments. No transitional measures have been adopted in the calculation of the technical provisions.

The MCR is calculated as £3.3m being the higher of the Absolute Floor of £3.3m or 25% of SCR, £2.6m at 30 September 2019.

*Solvency II Members' Funds per our published SFCR 2018 were subsequently restated to £24.8m from £24.6m.

There are no areas of non-compliance with the SCR or the MCR.

It is important we secure an equitable return from our core insurance activities and to this end we are changing our reinsurance arrangements which have become less efficient at our last renewal. Our new structure will see us retain more of the risk, and hence any profit, whilst continuing to receive protection against large individual losses and an aggregation of small losses which could impact our results. The increase in retained risk will impact the future SCR through an increase in insurance risk.

A large source of variability in the total capital required to support the business arises from market risk. This risk changes in response to the allocation of funds to different asset classes within our investments, held directly or as part of the assets of the defined benefit pension scheme. The company has considerable scope and flexibility to manage the market risk through its investment policy.

Accordingly the company is likely to see insurance risk become a larger proportion of total SCR relative to market risk. The decision to take more risk will result in a reduction in the ratio of capital to SCR in future and this is the active policy of the company.

As a mutual insurance company, Cornish Mutual is owned by its customers who are all Members of the company. Member approved directors make up the Board. The governance objectives of the Board of Cornish Mutual are set out publicly in its Board Charter (www.cornishmutual.co.uk ).

The company operates with three Board committees: Risk and Audit, Investment and Capital Management and Remuneration and Nominations.

The following standard sections of the SFCR are considered not applicable and are therefore not included: A5, B8, C7, D4, D5, E3 and E4.

Where numbers are provided on a rounded basis, each individual number is presented using conventional rounding without adjustment. No adjustment is introduced to allow totals to agree so tables and columns of rounded numbers may be subject to rounding errors.

This report is subject to audit in accordance with the PRA Supervisory Statement SS11/16.

## Statement of Directors' Responsibilities

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

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

b) it is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued so to comply and will continue so to comply in future.

**Signed:** ........................................ **Peter Beaumont (Director)**

**Date: 06 January 2020**

# A. Business and performance

## A1 - Business

Cornish Mutual Assurance Co Ltd is a company limited by guarantee. Company number 78768.

The company, as a category 5 firm, has no named supervisor and is managed through the smaller insurer regime by the Prudential Regulation Authority. Their address is 20 Moorgate, London, EC2R 6DA. The company is also regulated by the Financial Conduct Authority. Their address is 12 Endeavour Square, EC20 1JN.

This Solvency and Financial Condition report has not been audited as permitted by regulation. The external auditor for the annual report for the year ended 30 September 2019 was:

**PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors**

2 Glass Wharf, Bristol, BS2 0ZX, United Kingdom.

The Company conducts general insurance business in the four counties of the south west of England. Material lines of business are identified in section A2 below by inclusion of the segmental analysis from the financial statements, as set out on page 10.

## A2 - Underwriting performance

The overall sources of profit and loss contributing to changes in Members' Funds are shown below.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Technical Profit | (842) | 389 |
| Other charges | (1,090) | (981) |
| **Underwriting result** | **(1,932)** | **(592)** |
| Investment income net of fair value adjustments | 591 | 270 |
| Tax | 0 | 177 |
| Pension adjustments net of tax | (343) | (293) |
| **Change in Members' Funds** | **(1,684)** | **(438)** |

Members' Funds need to be maintained at an appropriate level to meet the expected level of current and future claims. Managing the level of these reserves is key to the financial success of the company, balanced with our aim to deliver good general insurance cover at a competitive rate. Members' Funds declined by £1.7m over the year in 2019 (2018: decreased by £0.4m) but remain comfortably in excess of regulatory requirements and our own appetite.

Insurance performance has been impacted by large claims and continued poor investment performance in 2019. However, given the inherently volatile nature of the business, results are within expected levels. This is discussed further below:

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| **Gross Written Premium** | **20,300** | **20,570** | **20,590** | **20,820** | **22,310** | **23,440** | **23,650** |
| | | | | | | | |
| **Gross Earned Premium** | **19,810** | **20,460** | **20,710** | **20,600** | **21,500** | **23,000** | **23,450** |
| Less: Gross Claims | 14,460 | 13,790 | 9,460 | 10,870 | 12,070 | 13,830 | 15,360 |
| GELR %age | 73% | 67% | 46% | 53% | 56% | 60% | 66% |
| | 5,350 | 6,670 | 11,250 | 9,730 | 9,430 | 9,170 | 8,090 |
| Less: Expenses | 5,140 | 5,310 | 5,570 | 5,960 | 6,430 | 6,830 | 6,980 |
| Gross Earned Expense ratio | 25.9% | 26.0% | 26.9% | 28.9% | 29.9% | 29.7% | 29.8% |
| **Gross insurance result** | **210** | **1,360** | **5,680** | **3,770** | **3,000** | **2,340** | **1,110** |
| Profit before tax | 1,460 | 360 | 790 | 1,590 | 2,350 | (10) | (1,340) |
| Less: Investment returns | 2,050 | 1,040 | 350 | 1,820 | 1,890 | 580 | 590 |
| **Net insurance result** | **(590)** | **(680)** | **440** | **(230)** | **460** | **(590)** | **(1,930)** |
| **Effect of reinsurance** | **(800)** | **(2,040)** | **(5,240)** | **(4,000)** | **(2,540)** | **(2,930)** | **(3,040)** |
| Effect of reinsurance as %age of Gross Earned Premium | (4%) | (10%) | (25%) | (19%) | (12%) | (13%) | (13%) |
| **Members' Funds £m** | **18.4** | **19.4** | **20.0** | **20.4** | **23.4** | **22.9** | **21.3** |

*Rounded to nearest £10,000*

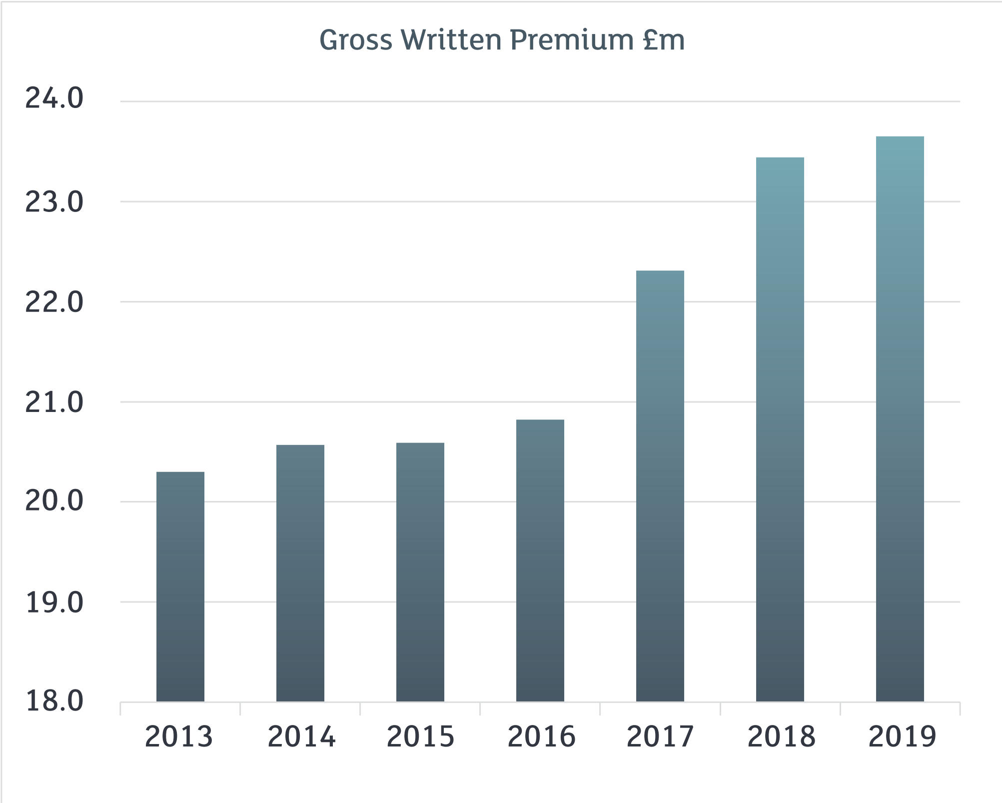
The table above includes our financial key performance indicators. The table is organised to show the difference between the gross and net insurance performance and therefore the total impact of all reinsurance arrangements. The individual indicators are discussed in more detail in the following paragraphs:

## Gross Written Premium

Gross written premium increased over the period to £23,650k (2018: £23,437k).

Following a review of our motor book, we amended our rating structure for our 'Any driver' policies to ensure our pricing was consistent with policy exposure.

We continue to see demand for our offering and underlying growth continued.  We have increased our presence in the eastern end of our South West territory and this is starting to gain traction.

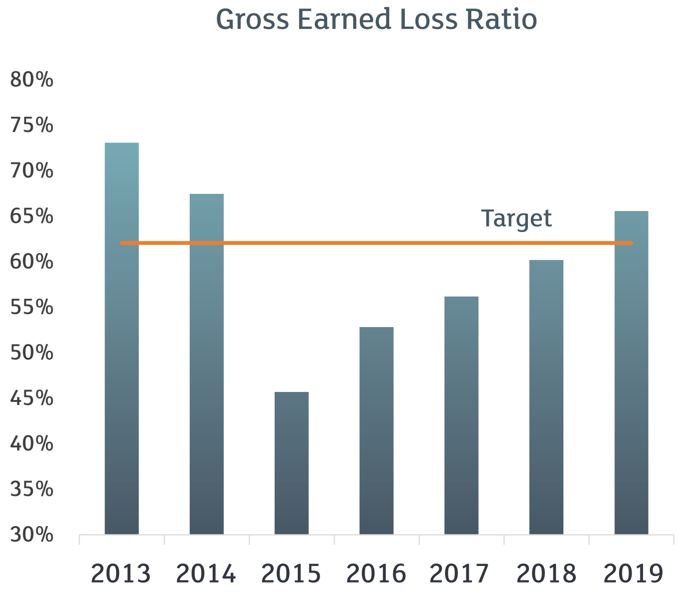


## Gross earned loss ratio (GELR)

Gross earned loss ratio is the movement in the cost of claims, excluding the effect of reinsurance, as a proportion of gross earned premium. It includes the cost of claims reported in the year and movements in the estimated cost of claims brought forward from previous accounting periods.

GELR shows the underlying performance of the book of business and reflects our ability to correctly select and price the risks we insure.

Despite underwriting broadly the same risks each year the gross claims cost varies considerably. This is mostly caused by the effect of a few individual large claims or, as in the case of 2014, a period of bad weather. For 2019 our reported loss ratio is higher than our target but remains within expectations. The movement from 2015 to 2019 appears to suggest an increasing trend, but as the target line suggests, it is actually the result of the volatility around the GELR and is in line with our expectations.

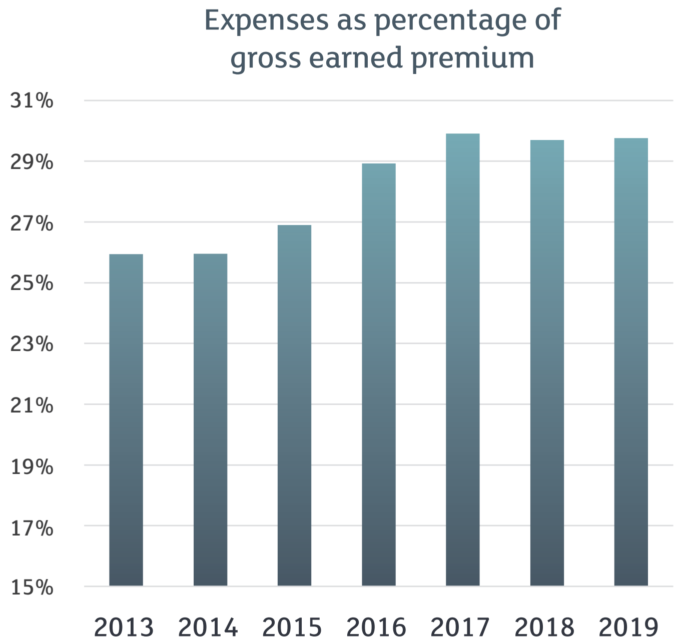



## Expenses

Expenses include net operating expenses from the technical account and other charges from the non-technical account. In the current year, the ratio of expenses to gross earned income is very consistent with 2018 at 29.8% compared to 29.7% last year.

As a Member owned organisation, Cornish Mutual is always aware that any money we spend is Members' money. Without having carried out a formal benchmarking exercise we nonetheless look to compare favourably against other insurers on this measure. We believe we can dilute some fixed costs through future growth and process efficiencies and if plans are met expect to see our expense ratio become even more competitive, particularly for an organisation of our scale.

Equally we will continue to commit resources in maintaining and developing the high level of service we believe that Members want and deserve.



## The use and effect of reinsurance

Cornish Mutual, in common with other insurance companies, is exposed to potentially large though infrequent losses. For example, motor insurance in the UK is provided on the basis of unlimited liability. To protect against the possibility of a very large claim or a large number of claims arising from a natural catastrophe, the Company enters into reinsurance arrangements which would reduce the impact of such claims should they occur.

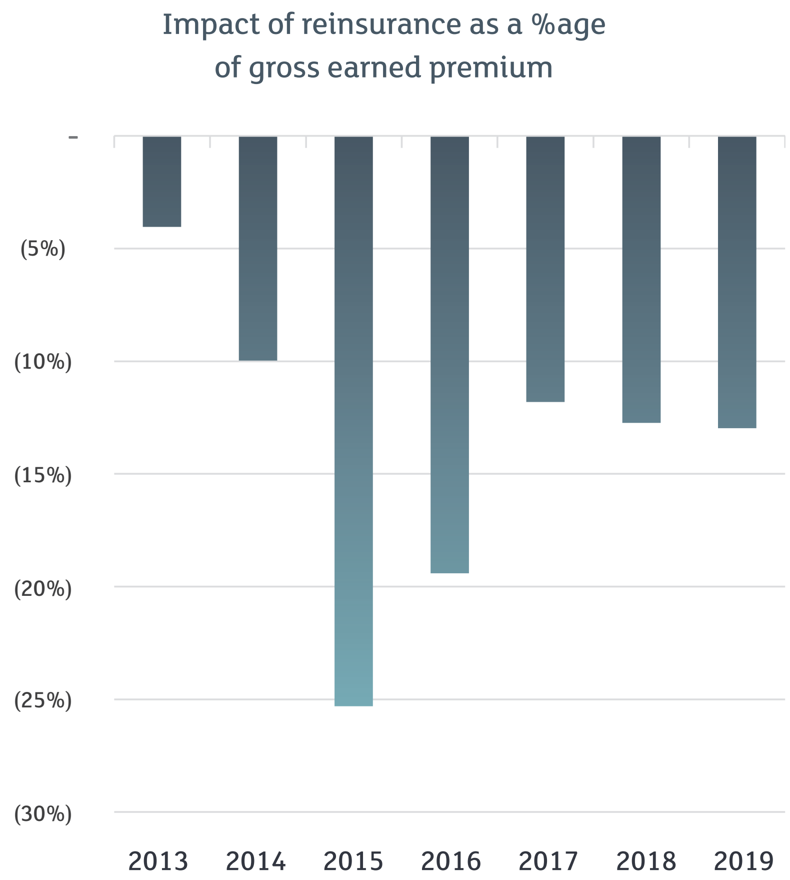
During the Financial Year 2019, Cornish Mutual continued to participate in two main types of reinsurance which protect Members' Funds.

Quota share reinsurance involves sharing the insurance result with an external party in return for a commission payable by the reinsurer. They take some of the profit but share in the risk of any losses which occur.

While quota share reduces the impact of large claims, it still leaves the possibility of a large loss on the share of business we retain. To protect against the risk to the retained share, we purchase excess of loss insurance. This provides protection for certain incidents or events in excess of agreed limits. Cornish Mutual pays a premium for such cover.

Whilst reinsurance clearly comes at a cost, the net insurance result is much less volatile than the gross insurance result.

The main benefit is the protection reinsurance gives against losses that would otherwise threaten the capital base of the Company, as described in the risk management section of this report.




In none of the last six years have we seen the sort of catastrophe or large motor loss which could threaten the capital base so the full protection potential of the cover is not evident in the table above. Whilst our reinsurance programmes have been in place to protect against loss to the business, this has been at the cost of sharing our underwriting success with reinsurance partners by a reduction in our profit; we have made considerable return for our quota share reinsurers. With the volatile investment markets and decreased return from this part of the business it is important we secure an equitable return from our core insurance activities and to this end we are changing our reinsurance arrangements. Our new structure will see us retain more of the risk, and hence any profit, whilst continuing to receive protection against large individual losses and an aggregation of small losses which could impact our results.

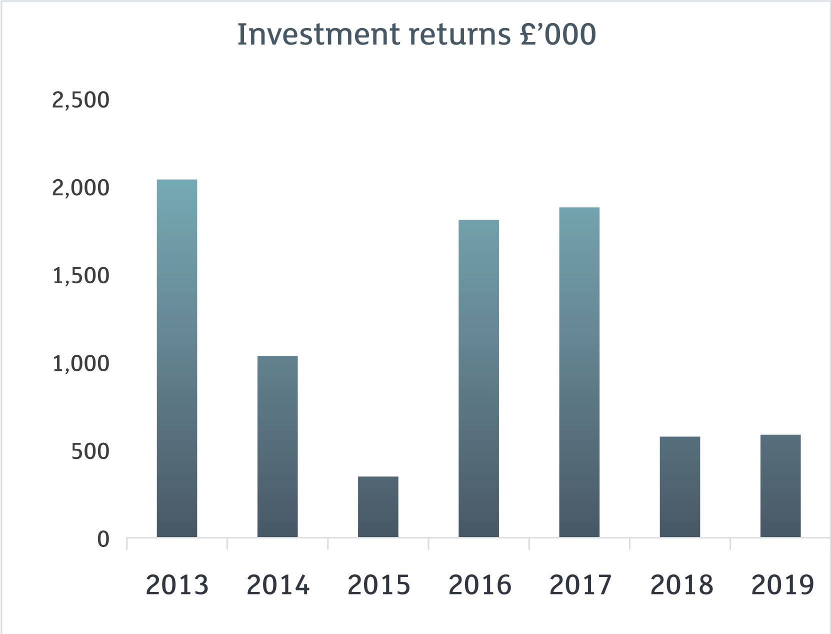
## Investment Returns

Investment returns in 2019 were below expectations but in line with last year's levels.

The expectation of a low return environment over a longer period of time is challenging for insurers, especially when combined with the potential for market shocks. The use of multi asset funds gives our selected expert providers more ability to manage these challenges on our behalf.

Members' Funds have fallen in the year from £22.9m to £21.3m. Overall the relative levels of the various assets and liabilities is similar to last year.

Claims reserves require a level of judgement and this is discussed in Note 5 of the Annual Report and Financial Statements. The value of the pension provision also includes a high degree of uncertainty. While the pension liability is shown as nil, this number is sensitive to assumptions about future interest rates, inflation and longevity of pension holders.




While the latest pension valuation suggest a surplus, this has not been recognised because there is not an unconditional right to the surplus and a benefit to the company is not anticipated to arise. The valuation basis for accounting purposes does not necessarily reflect the full liability of the pension if these assumptions were to change or if the company sought to pay another company to take on these liabilities. Accordingly risk associated with the pension remains, although it now appears with a nil value in these financial statements.

## Cash Flow

The levels of capital prescribed by the Prudential Regulation Authority, held in Cornish Mutual as retained profit, results in significant investment assets on the balance sheet with sufficient liquidity. Cash flow does not present a significant risk and the Company maintains considerable flexibility in this respect. The total amount and timing of claims payments is the main factor determining cash flow.

The Company has structured its investments and reinsurance arrangements so as to take the appropriate levels of risk it needs to achieve the desired outcomes. These issues are discussed in more detail in the Principal Risks and Uncertainties section of this Strategic Report and in note 5 to the Financial Statements.

## Segmental Information

| 2019 | Motor | Property | Accident & Health | Liability | MAT | Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Gross premiums written | 13,075,564 | 7,410,091 | 137,859 | 3,025,225 | 387 | 23,649,127 |
| Gross premiums earned | 12,975,821 | 7,321,354 | 138,168 | 3,015,306 | 3,957 | 23,454,605 |
| Gross claims incurred | (12,279,656) | (2,354,680) | (59,282) | (660,874) | (643) | (15,355,134) |
| Reinsurance claims recoverable | 5,577,990 | 1,336,857 | 0 | 375,631 | 404 | 7,290,882 |
| Operating expenses | 3,857,607 | 2,186,155 | 40,672 | 892,514 | 114 | 6,977,062 |

| 2018 | Motor | Property | Accident & Health | Liability | MAT | Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Gross premiums written | 13,053,714 | 7,231,727 | 140,956 | 3,002,567 | 7,709 | 23,436,672 |
| Gross premiums earned | 12,798,626 | 7,068,091 | 140,773 | 2,980,965 | 12,378 | 23,000,834 |
| Gross claims incurred | (6,885,812) | (4,983,054) | (105,479) | (1,849,777) | (1,975) | (13,826,096) |
| Reinsurance claims recoverable | 2,590,953 | 2,998,491 | 2,059 | 1,080,753 | 1,161 | 6,673,417 |
| Operating expenses | 3,804,394 | 2,107,625 | 41,080 | 875,073 | 2,247 | 6,830,418 |

*Operating expenses include administrative expenses and other charges.*

## A3 – Investment Performance

The company's investments are disclosed in the financial statements as follows:

### Investments

| Other Financial Investments | Current and Fair Value | | Historical Cost | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £ | £ | £ | £ |
| **Collective investments** | 29,595,943 | 29,075,720 | 27,718,000 | 27,718,000 |
| | **29,595,943** | **29,075,720** | **27,718,000** | **27,718,000** |

The funds we invest in have absolute return targets and we give the fund managers discretion over asset allocation decisions to both increase returns and reduce volatility in a cost effective way.

The expectation of a low return environment over a longer period of time is challenging for insurers, especially when combined with the potential for market shocks. The use of multi asset funds gives our selected expert providers more ability to manage these challenges on our behalf.

The collective funds are not operated under a mandate specific to Cornish Mutual. The funds have investment objectives and typically broad ranges for allocation within different asset classes.

## Investment Income

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Income from Land & Buildings | 69,718 | 122,303 |
| Income from listed investments | 7,399 | 4,105 |
| Income from other investments | 230 | 169 |
| Dividend from subsidiary | 0 | 312,470 |
| | 77,347 | 439,047 |

| | | |
|---|---|---|
| Gains on the realisation of investments | 0 | 852,533 |
| Less accumulated unrealised gains from prior years | 0 | (828,207) |
| **Profit on disposed investments** | **0** | **24,326** |

| | | |
|---|---|---|
| **Unrealised gain / loss on retained investments** | **620,337** | **235,228** |
| **Total investment gains / (losses)** | **620,337** | **259,553** |
| **Total investment income per financial statements** | **697,684** | **698,601** |
| Less investment management expenses | (107,514) | (116,215) |
| Fair value adjustment arising out of subsidiary performance | 0 | (312,453) |
| **Contribution from investment activities** | **590,170** | **269,933** |

The result lies within the range of reasonably foreseeable outcomes for the overall performance of our chosen investments.

## A4 - Performance of Other Activities

### Tax

At 30 September 2019 Cornish Mutual carried no tax provisions. The company is carrying forward some untaxed gains and some unrelieved management expenses. The resulting deferred tax asset has not been recognised.

### Pension

The company has a defined benefit pension scheme. Details of the accounting for the pension are included within the financial statements. While the valuation of the pension scheme by actuaries has indicated a surplus for accounting purposes, the company has taken the view that there is no recognisable asset recognised in the financial statements. The company continues to fund the pension to meet the potential cost of transferring the liability off the company balance sheet. Because the accounting surplus is not recognised, the cash cost of the pension reduces Members' Funds. Of the total of £386k, £43k is reflected as an administrative expense within the underwriting result and £343k is a re-measurement difference in the statement of comprehensive income.

## Financial Commitments

The company has entered into operating lease agreements as lessee and lessor and these are quantified below; commitments which are not recognised in the balance sheet are shown along with disclosure of amounts recognised in the current year. This note is reproduced from the annual report and financial statements.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| **a) Operating lease commitments as lessee** | | |
| **Expiry date** | | |
| Within one year | 186,097 | 165,530 |
| - between one and five years | 164,223 | 254,260 |
| - after five years | 40,000 | 60,000 |
| | 390,320 | 479,790 |
| **b) Operating lease commitments as lessor** | | |
| **Expiry date** | | |
| Within one year | 0 | 42,960 |
| | 0 | 42,960 |

The cost recognised in profit and loss in respect of operating lease commitments in the current year was £207,738 (2018 – £201,704).

Operating lease commitments as lessor represent leases of certain elements of its freehold property to third parties. At the balance sheet date the minimum lease receipts to the Company under these arrangements are as included in part b) of the note above. During the year the lessee exercised break clauses within the lease.

# B. System of governance

## B1 - General Information on the system of governance

As a mutual insurance company, Cornish Mutual is owned by its customers who are all Members of the company. Members are all entitled and encouraged to participate in the stewardship of the company and to influence its culture and direction through voting and participation in its annual general meetings, by becoming qualified to be members of its Board, or by providing feedback to management on any aspect of their current and future insurance protection and service needs.

The governance objectives of the Board of Cornish Mutual are set out publicly in its Board Charter (www.cornishmutual.co.uk ).

The company operates with three Board committees: Risk and Audit, Investment and Capital Management and Remuneration and Nominations.

Board directors take individual and collective responsibility for determining the Company's objectives and strategy and for ensuring that the Company is managed and directed in such a way as to determine good outcomes for Members as a whole. Directors, where appropriate, are controlled function holders under the Senior Management and Certification Regime (SM&CR).

The Board is responsible for corporate governance; stewardship of Members' Funds; and for the reputation of the Company. The Board's ORSA Policy sets out the role and responsibilities of the Board, its committees, the executive, management and employees in respect of the ORSA process.

Appointment of Directors is initially handled by a Remuneration and Nominations committee. Their preference is to use "head-hunters" to identify a short list of suitable candidates; from this list candidates for interview are selected by the committee. Interviews take place with the committee using a common format. Successful candidates are recommended for co-option to the Board: Directors co-opted by the Board face election by the Membership at the next AGM.

Most non-executive directors serve 3 terms of 3 years each, but there is also value through continuity in some directors serving for longer than 9 years, subject to recommendation by the Board and annual approval by Members at the AGM in accordance with good governance.

The composition of the Board and Board succession are managed to maintain the range of skills and experience needed to direct and govern the affairs of the company and to support and constructively challenge management. In addition to the qualities of intelligence, integrity and independent judgement, particular attributes and experience are sought at different times to maintain the right balance: directors are chosen as being fit and proper, with the requisite experience, skills and diversity to influence positively the development of the Company in the interests of Members and other stakeholders.

The Board sets a number of Company Policies, some of which are designed to recognise and control financial risk; others to control conduct risk and to promote a culture of prudent management and customer focused service. In some instances, such as the Company's Underwriting and Pricing Policy, both prudential and conduct issues are defined.

The Board has agreed policies in twenty four areas. Those deemed critical are reviewed annually with all others reviewed at a minimum of every three years. These are supported by Operational policies which in turn are augmented by processes and procedures for delivery of agreed outcomes.

For the SM&CR functions of risk management, internal audit and the actuarial function, the company adopts an approach which reflects the nature, scale and complexity of the business and delivers the desired outcomes:

Ultimate executive responsibility for Risk Management has rested with the Managing Director during the year. The Board view this as both proportionate and appropriate.

In respect of Internal Audit the responsibility, from a regulatory perspective rests with the Governance Leader. This SM&CR function reports directly to the chair of the Risk and Audit Committee and completes a programme of work which has been agreed with the Committee. This role oversees work which is done internally taking a risk based approach. This is enhanced by work done by external agencies, usually relevant professionals. The end result is an objective and independent approach.

During 2019 we had notice of the retirement of the Managing Director. This has necessitated a change to control functions which we have had time to address through succession planning. The changes represent both an opportunity to increase separation of function and develop further strength and depth within management, recognising and building upon individual's skills and experience.

At the time of writing regulatory approval for the proposed changes is awaited. They key changes are laid out in the following paragraphs.

The Finance and Operations Director is taking over responsibility as Managing Director. The responsibility for Risk Management is moving to an executive director other than the Managing Director.

Regulatory responsibility for the Actuarial function rested with the Finance and Operations Director along with the Finance Function. With the appointment to Managing Director, the Finance function has moved to a new individual but Actuarial Function has been retained. The Board have been comfortable with the sufficiency of checks to manage conflict of interest and this change improves separation of finance functions. An independent actuarial review of claims reserves, previously as a stand-alone exercise and now as part of statutory audit is conducted by qualified providers and is subject to oversight by the Risk and Audit Committee.

The remuneration policy is based on ensuring the business attracts and retains staff who can deliver the service the Members desire. As part of this Cornish Mutual does not think paying bonuses to Executives is appropriate and consequently they form no part of Executives' remuneration. Executive pay is dependent on individual performance and the performance of the Company as a whole. These are reflected in any salary increases which have been made.

## B2 - Fit and proper requirements

Directors are appointed under the "fit and proper" process adopted by the Company and in addition Senior Management Function holders are pre- approved by the PRA/FCA.

The process within Cornish Mutual which is used to determine, honesty, integrity, reputation, competence/capability and financial soundness, involves a personal declaration, credit checks, criminal record checks as well as the assessment as to whether individuals have the knowledge, skills and experience to undertake a particular role. This is reflected in the Scope of Responsibilities.

"Fit and proper" is reviewed annually and there is a continuing obligation to advise the Chairman if, at any stage, individuals cannot fulfil these requirements.

## B3 - Risk management system including the ORSA

The Company identifies and manages risk within a clearly defined framework. The framework comprises our Board Risk Management Policy, Risk Appetite Statement, Risk Appetite, Tolerance and Control Register, and is underpinned by a Three Lines of Defence monitoring mechanism. The framework informs the major risk elements of the Company's Own Risk and Solvency Assessment (ORSA).

This framework begins with the Board who have ultimate responsibility for identifying and managing the risks which the business faces as set out in the Risk Policy, and the appetite to risk the Company exhibits in achieving its business goals. The framework is directly overseen by the Risk and Audit Committee, an advisory Committee to the Board, who have effective ownership of the Company's Risk Appetite, Tolerance and Control Register. On an operational basis risk is managed by the Management Risk Committee, which meets quarterly and is chaired by the Insurance Director, with each of the identified risks being owned by an individual member of the Executive and Leadership Team.

The Company's ORSA process pulls together the work which is done on risk within the business and ensures that appropriate monitoring takes place, that appropriate reviews are conducted in line with the regulatory guidelines and the appropriate amendments made to any necessary documentation. The ORSA is reviewed and approved by the Board on an annual basis.

Cornish Mutual has adopted the Standard formula as the basis for calculating its solvency capital requirement. The Board have a policy which determines the level of surplus capital it holds in addition to the SCR, currently determined at 150% of MCR.

## B4 – Internal control system

The company's Internal Control Framework is described in the board policy on Internal Audit and Internal Control. Key elements include the following:

- Shared values bind the organisation together, provide the context in which the company conducts its business and serve as touchstones. This shared culture is the foundation of all the other controls.
- Training and development of the Board and staff is also an important control. All joiners undertake a common induction programme which emphasises culture, values and the mutual aspects of the business. Cornish Mutual has Chartered Insurer status and there is a focus on achieving CII qualifications.
- Performance appraisal is based on behaviours.
- Technical controls: a well-established Validation and Support Programme drives improvements in standards and member outcomes; a Pricing Committee is charged with reviewing all products for pricing appropriateness on an annual basis and individual authority levels are set for both claims handling and underwriting acceptance.
- Treating Customers Fairly (TCF) is embedded and supported by management information discussed during a quarterly meeting which ensures the agreed outcomes are being delivered.
- A Management Risk Committee, which meets quarterly ensures all identified risks are closely monitored, reviewed and remedial action taken where appropriate.

This overall framework can be envisaged as layered, with relevant outputs being produced as evidence of the control which is being exercised.

There are three layers:

Operational Governance

Executive governance

Board Governance

Within this approach a traditional "three lines of defence" is adopted:

- Internal controls are firmly established in work practices, for example, in the authorisation of expenditure and the acceptance of risk.
- Monitoring takes place at Line Manager level to ensure that correct procedures are adopted and desired outcomes achieved. Such activities range from file reviews, quality monitoring of phone calls and accompanied visits.
- The obtaining of independent assurance that what is desired is being achieved. This is overseen by the internal audit controlled function, which reports independently into the Head of the Risk and Audit Committee. This function ensures that the organisation's Validation and Support Team focusses on any particular areas of concern, ensures that a system of peer reviews take place which utilise the knowledge and experience in the business and ensures that external reviews have the appropriate focus and are conducted within agreed timescales. Specific internal audits of key functions (e.g. claims) are sanctioned by the Risk and Audit Committee on a both a scheduled and ad hoc basis using external specialist auditors in these areas.
- Compliance is the responsibility of all within the business. We have a Compliance Leader who chairs a Legal and Regulatory Committee- which encompasses other parts of the business- and ensures all relevant legislation and regulation is incorporated into the business and adhered to, fostering our embedded approach. A program of validation and internal audit monitors performance with any changes being introduced as required.

## B5 - Internal audit function

The Board exercises the Internal Audit control via the Risk and Audit Committee (RAC). Regulatory responsibility rests with the Governance Leader who holds the SMF 5 function. This function holder reports directly to the RAC chairman. This approach gives the necessary independence and objectivity.

There is a rolling programme of internal audit activity in place which includes peer reviews, independent evaluation of compliance with company polices and technical reviews of underwriting and claims functions by external specialists. This process is underpinned by the involvement of an external provider of internal audit services, PKF Littlejohn. This enhances the objectivity and independence of the work which is undertaken.

## B6 - Actuarial Function

The Actuarial Function Holder during the year was the Finance and Operations Director. While not a qualified actuary, the Board considers this individual has the capability of discharging the responsibility in line with regulations. Additional permanent members of the Actuarial Function include the Financial Controller and Business Analyst. As outlined above, the function will transfer with the individual as they become Managing Director. Under the new arrangements, Actuarial Function will be separate from the Finance Function.

The Actuarial Function deals with uncertainty and risk. It has a key role to play in identifying, analysing and quantifying levels of uncertainty and in assessing Company strategies for managing and mitigating risk. It is recognised that the wide use of judgement and estimation in quantifying uncertain insurance liabilities introduces the potential for bias.

As a vital control function, the key requirement is that the function is effective in delivering robust application of appropriate techniques within the control areas, minimising bias and being conscious of the limitations and sensitivity to the assumptions it uses.

Where senior staff carry a broader responsibility they should operate with a wider perspective. Accordingly, while the company does not have an actuary who has no operational role, equally there are no directors with narrow responsibilities for whom increasing risk or introducing bias might be actively if inadvertently increased. For example the executive team do not receive performance bonuses.

In Cornish Mutual, full separation of the function cannot be achieved cost effectively. What cannot be sacrificed are the desired features of an effective function.

o Objectivity

o Challenge to others

o Challenge to itself

The approach to the structure of the Actuarial Function within Cornish Mutual has been considered by the Board to be appropriate in achieving the full intended aims of the function. It is proportional in constitution but complete in scope.

## B7 - Outsourcing

Cornish Mutual ensure that decisions regarding customer outcomes, where Cornish Mutual are the contracting party, for example whether a claim should be paid and how much, are always retained within the business. There is no appetite to outsource any of this core activity to third parties, Cornish Mutual take the view that such outcomes are critical to the delivery of its business objectives. Hence there is no outsourcing of any critical or important operational functions and activities.

Cornish Mutual makes use of an outsourcing arrangement in respect of the internal audit function to provide independent, expert input to this activity. The relevant Senior Insurance Management Function (SMF5) is held by a Cornish Mutual employee, the Head of Internal Audit.

## C. Risk profile

Risks are quantified through the application of the standard formula. The overall risk, quantified as the SCR is broken down across the relevant risks in the following table:

| Description | Sep - 19 |
|---|---|
| **Insurance Risk** | **£M** |
| Premium & Reserve Risk | 3.3 |
| Catastrophe Risk | 2.3 |
| Lapse and Expense Risk | 1.0 |
| Diversification | -2.0 |
| **Total Insurance Risk** | **4.5** |
| **Market Risk** | **£M** |
| Interest Rate Risk | 1.0 |
| Equity Risk | 4.8 |
| Property Stress | 0.6 |
| Currency Risk | 0.7 |
| Credit Risk | 2.2 |
| Diversification | -1.9 |
| **Total Market Risk** | **7.3** |
| **Counterparty Risk** | **£M** |
| Reinsurance and Long Term Deposits | 0.5 |
| Credit Exposure within collective investments | 0.1 |
| Pension | 0.0 |
| **Total Counterparty Risk** | **0.6** |
| Total Before Diversification | 12.4 |
| Overall Diversification Risk (SII) | -2.7 |
| **Total after Diversification** | **9.7** |
| **Operational Risk** | **0.7** |
| **Loss Absorbing Capacity of TP's & Deferred Tax** | **0.0** |
| **Overall Diversification Risk (ICA)** | **0.0** |
| **Solvency Capital Requirement** | **10.4** |

## C1 - Underwriting risk

Underwriting risk is the risk of making losses on the activity of insurance either in assessing the risks it provides policies for or in quantifying claims that occur.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is uncertain and therefore unpredictable.

The principal underwriting risk faced by the Company is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary year to year from the level established using estimation techniques.

A number of measures are in place to ensure this risk is managed prudently and conservatively; these include meetings of our Large Loss Committee, the Management Risk Committee, the Sales and Underwriting Referral Forum, the Pricing and Underwriting Committee, as well as the monthly Business meeting which reviews all statistics relating to the insurance side of the business.

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Company has also ensured that sufficient reinsurance arrangements are in place and has an active claims handling team.

As a niche insurer, the Company holds insurance risks entirely within the four counties of the South West being Cornwall, Devon, Somerset and Dorset. This creates a regional concentration of risk in relation to weather events.

The company concentrates on rural risks and this avoidance of urban settings limits concentration risk for certain event types; the majority of property damage exposure is commercial farm business or connected in some way to a farm. The company also maintains limits at an individual risk level to reduce exposure to individual events at the gross level.

Risk is quantified through the risk of catastrophe, uncertainty of claims value (premium and reserve risk) and the risk of policies lapsing.

The material lines of business against which these risks are quantified are motor liability, motor damage, property and non-motor liability (public and employers).

In addition to the rural nature of the business and the individual risk limits, the chief mitigation for underwriting risk is reinsurance and the company utilises it as described in section A2 above.

The principle effect of quota share reinsurance is to reduce premium and reserve risk to £3.3m from an expected £6.0m without reinsurance under the standard formula before the application of diversification.

The principle effect of excess of loss insurance is a significant reduction of the gross, undiversified SCR for catastrophe from £26.5m to £2.3m.

From 1 October 2019, new reinsurance arrangements are in place for risks incepting on or after that date. The core of the new arrangements is a stop loss contract which responds when the loss ratio exceeds a particular level, howsoever that is caused. The stop loss benefits from excess of loss protection in respect of catastrophe, property, motor and liability events. While the overall programme increases the retention of losses on rare, high value events, there is a broader set of scenarios that the programme responds to. Over time, the capital is better protected and the insurance returns improved at a lower cost as a result of these arrangements. All reinsurance elements are placed with a panel of reinsurers.

While the previous quota share arrangements continue to run off over the course of the next financial year and provide cover for historical losses and loss development, the stop loss programme will be the only arrangements in force for newly incepted risks.

## C2 - Market risk

The market risk Cornish Mutual faces is that an adverse movement in the value of assets, such as interest rates or equity prices, is not matched by a correspondent movement in the value of liabilities.

Market risk under the standard formula represents the largest component of Cornish Mutual's SCR at £7.3m in the table above. The capitalisation of the company allows for this level of risk to be carried comfortably.

Our investment policy ensures that we have a suitable balance of assets. Testing of the impact of particular events on these assets, such as failure of investments and equity downturns, is a critical part of our Solvency II work, in particular the calculation of the SCR. Cornish Mutual makes wide use of collective investment funds. These collective funds are not operated under a mandate specific to Cornish Mutual. The funds have investment objectives and typically broad ranges for allocation within different asset classes. Accordingly the contribution of market risk to the SCR can be quite volatile. The SCR is monitored on a quarterly basis. Quarterly monitoring does not allow for timely adjustment and maintaining the SCR is required at all times. Accordingly, sensitivity analysis has been carried out to ensure the capital of the company can bear the capital charge which would arise if the funds trade at the upper end of their limits for the asset classes which attract the highest level of capital charge, most notably equities.

The change of reinsurance arrangements moving forward will reduce the reinsurer share of technical provisions, making more assets available for investment. Our investment policy and appetite will be reviewed on a forward looking basis to take account of this change to continue to manage market risk on a prudent basis.

## C3 - Counterparty risk

Counterparty risk arises from the risk of loss if another party fails to perform its obligations or fails to perform in a timely or appropriate fashion.

Given the reliance on reinsurance partners, counterparty risk is potentially significant for the Company. As well as our reinsurers, we also have exposure from banks, contractors, our investments and our Members.

As quantified in D1 below, Cornish Mutual has built up a reinsurance recoverable balance, primarily with quota share partners, which represents a concentration of a relatively small number of counterparties. Given the credit quality of those counterparties the SCR is relatively modest however the company recognises the potential for this risk and has significant mitigation in place to deal with counterparty risk and the related operational risk identified in C5 below. Additionally the 1 in 200 catastrophe risk faced by the company gives rise to a potential reinsurance recoverable of £26.5m as identified in C1 above under the standard formula calculation. The crystallisation of this additional recoverable amount is included within the calculation of the counterparty SCR.

There are significant controls in place to ensure that the risk is minimised:

- Under our quota share agreement, we pay our reinsurers quarterly in arrears, as per the Contract, with the claims being paid out of the premiums which we collect. Credit ratings are monitored and their financial strength is reviewed annually.
- The excess of loss treaties which could give rise to a significant recovery are placed with a panel of reinsurers to avoid excessive concentration.
- Under the new reinsurance arrangements we will see a reduction in the amounts recoverable from our quota share reinsurer. The stop loss and excess of loss covers are placed with a panel of reinsurers, reducing concentration risk in the future.

## C4 - Liquidity risk

The liquidity risk is the possibility that the business may be unable to meet its obligations as they fall due as a consequence of having insufficient accessible funds. Our reinsurance arrangements and the significant liquid assets the business holds, both controlled through appropriate policies, mean that the liquidity risk is not a significant risk as far as Cornish Mutual is concerned.

## C5 - Operational risk

Operational risks are the most numerous ones faced by Cornish Mutual and they relate to the risk of loss resulting from inadequate or failing internal processes, people and systems or from external events, for example, a disruption to the business by natural catastrophe.

The range of operational risks, identified by the Board is captured in a risk register. The risk register is actively managed through a quarterly management risk committee (MRC) which monitors, quantifies and assigns actions on a quarterly basis. The activities of the MRC are supported through the operational organisation of the company and the MRC is subject to oversight by the Risk and Audit Committee and the Board, both which receive the minutes of MRC meetings.

In particular, given the reliance on reinsurance, any failure in the arrangement, placement or conduct of reinsurance activities in line with our contracts could have a material impact on the company.

Given their potential impact, particular focus is placed on such operational reinsurance risks by the Board with a variety of mechanisms in place to both mitigate their effect should they arise, and to prevent them arising in the first place. Multiple layers of review take place within the reinsurance process, primary wordings are reviewed in line with the reinsurance contracts and extensive training around acceptance criteria and limits is provided. In relation to claims there are further mitigating activities such as audit activity and the inclusion of reinsurers within the large loss committee to aid awareness of potential recoveries and scenarios under which specific notification is required.

All identified operational risks have a documented approach to the monitoring, control and mitigation of the risk according to the nature, scale and complexity of the risk.

Operational risk is quantified under the standard formula at £0.7m and the company has determined, through an examination of the operational risks it faces, that the operational SCR sufficiently captures a wide range of potential, independently operating risks on a probability weighted basis.

Additional information about our risk profile is available in Note 5 of the Annual Report and Accounts.

# D. Valuation for solvency purposes

## D1 - Assets

We set out below the basis for our Solvency II asset valuation for each material class of assets. Assets are measured on a market value basis at the balance sheet date of 30 September 2019. Except where stated, the valuations of other assets is in line with those disclosed in Note 3 of the annual report available on the Cornish Mutual website.

| Assets | Solvency II | Statutory GAAP Acounts |
|---|---|---|
| | £ | £ |
| Intangible assets | 0 | 50,088 |
| Property, plant & equipment held for own use | 2,680,621 | 2,680,621 |
| Collective Investment Undertakings | 29,595,943 | 29,595,943 |
| Reinsurance recoverable | 10,182,875 | 14,642,981 |
| Insurance and intermediaries receivables | 1,593 | 5,784,104 |
| Reinsurance receivables | 2,506,572 | 2,898,842 |
| Cash and cash equivalents | 1,086,656 | 1,086,656 |
| Receivables (trade, not insurance) | 53,158 | 53,158 |
| Any other assets, not elsewhere shown | 324,282 | 324,282 |
| **Total Assets** | **46,431,699** | **57,116,674** |

### Property

Freehold property is valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP. Full valuations are made by an independent, professionally qualified valuer every three years. A valuation took place on 30 September 2017.

Plant and equipment is held at historical cost less depreciation which has been judged to be equivalent to fair value. The difference in Any Other Assets relates to balances that have been moved to Technical Provisions under Solvency II.

## Investments

Our investments are valued on a Solvency II basis. Fair value is based on quoted bid prices on 30 September 2019.

As at 30 September 2019 the total value of investment assets was £31.87 million, analysed as follows:

| | £M |
|---|---|
| Collective investments funds | 29.60 |
| Freehold property partially occupied | 2.27 |
| **Total investments** | **31.87** |

During the financial year the majority of the portfolio was invested in the Insight Broad Opportunities Fund. The fund is a multi-asset fund with a wide-ranging mix of investment classes and assets. This fund aims to deliver positive returns over the medium term while minimising losses. The manager has freedom to make significant asset allocation decisions. The Fund targets a return based on a percentage in excess of LIBOR (a technical measure for the return expected from cash holdings), and is measured against its own absolute return targets as opposed to a benchmark.

In addition to the Insight Broad Opportunities fund we invest in the Insight managed BNY Mellon Absolute Return Bond Fund. This fund seeks to provide a positive absolute return in all market conditions, over a rolling 12-month period, by investing primarily in debt and debt-related securities and instruments located worldwide and in financial derivative instruments relating to such securities and instruments. The Fund targets a return based on a percentage in excess of 3 Months EURIBOR (a further technical measure for the return expected on cash holdings).

All of our holdings of long-term investment funds have a focus on capital preservation and the management of risk. The Committee recognises and has actively sought to reduce the overall level of risk and volatility our investment portfolio is exposed to. While this is expected to reduce the return profile of the portfolio moving forwards we consider this to be appropriate given the importance of preserving Member's Funds while growing these in real terms.

As part of maintaining liquidity we hold specific liquidity funds within our collective investment funds. The Company maintains sufficient cash balances to meet short-term liabilities.

## Reinsurance recoverables (Reinsurers' share of technical provisions)

Under the Solvency II balance sheet the reinsurers' share of technical provisions are valued as part of net technical provisions. This has been calculated as the reinsurers' share of the unearned premium provision multiplied by the expected claim rate for each Solvency II line of business.

### Insurance and intermediaries receivables

Under GAAP these figures relate primarily to the amount owed to us by Members through direct debits. However, under Solvency II, these amounts are included as part of premium provisions within Technical Provisions and therefore do not feature within Solvency II assets. This represents one of the most significant differences between the GAAP and Solvency II technical provisions.

### Reinsurance receivables

Reinsurance receivables primarily relate to the amount owed to us from our reinsurers arising from claims payments made or profit share due. The difference between the Solvency II amount and GAAP figure relates to an unexpired minimum reinsurance commitment from one reinsurer. However, it is excluded from the Solvency II figures because it has no future cash flow.

### Trade receivables

Trade receivables is made up of outstanding invoices in respect of rental income due from tenants.

### Other Assets

Remaining assets not covered above represent prepayments. Included within prepayments in the statutory balance sheet is an amount for reinsurance prepayments which is not recognised in the Solvency II balance sheet.

## D2 – Technical provisions

### Components of Technical Provisions

Technical provisions represent the current cost of insurance liabilities at the balance sheet date. They are calculated on a discounted cash flow basis and include the following high level components to be calculated separately:

- Best estimate of claims provisions being claims incurred at the balance sheet date
- Best estimate of premium provision being claims expected to be incurred after the balance sheet date on contracts incepted prior to that date.
- Risk Margin representing the amount a third party would require in addition to the best estimates to assume the liability, calculated on a cost of capital basis.

| | Technical Provisions | |
|---|---|---|
| Description | Per Solvency II | Per GAAP |
| | £ | £ |
| Technical Provisions | 18,323,652 | 29,396,874 |
| Risk Margin | 573,157 | |
| **Total Technical Provisions** | **18,896,809** | **29,396,874** |

We set out in the table below a summary of the Solvency II valuation of technical provisions split between best estimate and risk margin in the table below by Solvency II line of business.

| | Direct business and accepted proportional reinsurance | | | | | |
|---|---|---|---|---|---|---|
| | Motor Liability | Motor Damage | Property | Liability | Miscellaneous | **Total** |
| | C0050 | C0060 | C0080 | C0090 | C00130 | C0180 |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | |
| **Best Estimate** | | | | | | |
| **Premium Provisions** | | | | | | |
| Gross - Direct Business | 804,201 | 1,233,140 | 968,923 | 576,852 | 15,900 | 3,599,016 |
| Total Recoverable from Reinsurance | 521,960 | 1,094,095 | 1,393,886 | 483,889 | -976 | 3,492,855 |
| **Net Best Estimate of Premium Provisions** | 282,241 | 139,045 | -424,964 | 92,963 | 16,876 | **106,161** |
| **Claims Provisions** | | | | | | |
| Gross - Direct Business | 2,045,194 | 6,135,582 | 4,510,741 | 2,001,779 | 31,340 | 14,724,635 |
| Total Recoverable from Reinsurance | 613,920 | 2,524,957 | 2,521,116 | 1,030,026 | 0 | 6,690,019 |
| **Net Best Estimate of Claims Provisions** | 1,431,274 | 3,610,624 | 1,989,625 | 971,753 | 31,340 | **8,034,616** |
| **Total Best Estimate - Gross** | 2,849,395 | 7,368,721 | 5,479,664 | 2,578,631 | 47,240 | **18,323,652** |
| **Total Best Estimate - Net** | 1,713,515 | 3,749,669 | 1,564,661 | 1,064,716 | 48,216 | **8,140,777** |
| **Risk Margin** | 94,345 | 203,258 | 166,270 | 105,257 | 4,026 | 573,157 |
| **Technical Provisions - Total** | 2,943,740 | 7,571,980 | 5,645,934 | 2,683,888 | 51,266 | **18,896,808** |
| Recoverable from Reinsurance | 1,135,880 | 3,619,053 | 3,915,002 | 1,513,915 | -976 | 10,182,875 |
| Technical Provisions minus Recoverables | 1,807,860 | 3,952,927 | 1,730,931 | 1,169,973 | 52,242 | 8,713,934 |

## Gross claims cash flows and reinsurance recoveries

Our best estimate calculations have been completed on a deterministic basis in line with the Directive. No transitional measure has been used in the calculation of technical provisions.

### 1. Claims provision

The current claims provisions have been developed over time to separate out best estimate and prudent elements. The claims provisions on a GAAP basis have been used as a starting point for the expected nominal value of the Solvency II future cash flow. We have excluded elements within our GAAP provisions which we consider to represent prudence. We have also only included expenses which relate to the cost of handling existing business.

Projected cash flows are estimated by applying payment patterns to the estimates of gross claims and recoveries. These payment patterns have been calculated based on historic trends for each Solvency II line of business. However, given the relatively short tail nature of our book, the impact of discounting on our technical provisions is limited.

### 2. Premium provision

Premium provision replaces UK GAAP unearned premium reserve (UEPR). Premium provisions are split between a future claims element and a future expenses element. In addition, all of CM premium, which is uncollected due to instalment patterns is treated as premium provision. The rationale is that all instalment patterns are designed so that Members are effectively in credit with respect to insurance exposure. To determine the nominal amount of future claims we take the amount of UEPR for each segment within the GAAP accounts and multiply it by the planned loss ratio for the current year. The loss ratios used are in line with Solvency II guidance. We have included an amount for expenses which represents our estimate of the cost of handling the remaining element of this business.

## Discounting

Claims, premium and expense cash flows have been discounted using the EIOPA yield curve.

## Risk Margin

To calculate the risk margin we have estimated the SCR using the Standard Formula. We have then projected future SCRs using different runoff patterns for different elements of the SCR. We have discounted and summed the projected SCRs and multiplied this by the cost of capital.

# Solvency II Adjustments Impact on Members' Funds

We set out in the graph below a reconciliation between GAAP Members' Funds and Solvency II Members' Funds to explain the movements in Technical Provisions which are in line with expectations.

### UEP in Excess of Expected Claims

In the statutory financial statements, unearned premium (UEP) is deferred to the extent that it relates to unexpired term of each policy. Under Solvency II, all premium is recognised and the future expected value of claims is provided for. This adjustment represents the difference between the two approaches.

### Contract Boundary

Under Solvency II the recognition of insurance contracts is extended to include policies on which terms have been agreed even if the renewal date lies in the future. This is the estimate of the effect on technical provisions of including these contracts.

### Prudence removed and Long tail IBNR to ENID adjustment

Under UK GAAP the inclusion of prudence is permitted within the technical provisions whereas within the Solvency II balance sheet, provisions are made on the probability weighted best estimate of future cash flows. These two adjustments take account of this different policy. ENID is Events Not In Data and is an estimate of claims which might occur that lie outside of the provisions which have been estimated using existing historical data. We have used the cost of reinsurance as a reference point for ENIDs. Our logic is that material tail events which would change technical provisions are likely to arise in liability classes which are covered by reinsurance. While not in our data, these events are likely to be in reinsurer data or priced in. Accordingly the starting point for our ENIDs is an interpolation from the amount paid to reinsurers for excess of loss cover in relation to liability classes.

### Future Expenses

This is an accrual of the expected cost of expenses required to discharge the provisions within technical provisions.

### NPV Discount (Net Present Value)

The technical provisions are allocated over future periods in which the cash flows are expected to occur. The cash flows in future periods are discounted at a prescribed rate to reflect the 'time value of money'. This is the effect of that discount.

### Risk Margin

The technical provisions are an estimate of what the company would have to pay a third party to assume the insurance liabilities. A third party would need to hold capital to meet regulatory conditions if they assumed these liabilities. The risk margin is the extra amount the third party would require to accept the liabilities and represents a 6% annual cost of capital on the reducing balance of regulatory capital required.

### Commission Recognised on Written Premium

Under Solvency II, all profit on existing contracts is recognised in the period. In the annual statements the commission relating to unearned premium (UEP) is also deferred. In line with the adjustment to premium, the related commission is also recognised in the Solvency II net assets.

## Data adjustments and recommendations

Overall we consider that the technical provisions are prepared on a suitable basis, in line with the approach laid down in the legislation and sources of interpretation we have referred to. It is expected that our approach will continue to develop and be refined in response to external audit, ongoing commentary and guidance by the regulator and our own ongoing continuous improvement reviews.

In the face of uncertainty we have taken a cautious approach. Where we believe our best estimate lies in a range of values we are biased towards higher values at this stage through our choice of estimates or parameters within calculations.

Control over our sources of data and the processing of that data are good. The link between our GAAP reserves and our Solvency II provisions is straightforward, well understood by those undertaking the work and enables reliance to be placed on underlying accounting controls as well as those specific to the technical provision exercise. There are some opportunities to refine our approach. There will always be a trade-off between model precision and error rate. Where simplified approaches are warranted, proportional and will not lead to a material error, we have adopted such approaches.

## Sensitivity Analysis

The following table lays out the key components of the TPs. For each component there is a sensitivity column which gives an idea of the degree of confidence in each number. There are three key sources of sensitivity: uncertainty, volatility and model inaccuracy. The sensitivities quoted are against the intended calculated value of TPs prescribed in the directive. It is not a view on the result as a measure of the fair value of the liabilities. For example the risk margin methodology is prescribed as a cost of capital calculation at the rate of 6%. The sensitivity below is a reflection of confidence in the calculation of this item rather than its appropriateness as a method.

Uncertainty arises in incurred claims where the final outcome is not known.

Volatility arises in future claims cost expectations, particularly large claims. The impact of quota share is to reduce the net exposure and the nominal amount of sensitivity of the calculated technical provisions. The exception to this is on large motor claims where CM retains 80%.

Model inaccuracy arises in incorrect assumptions or calculations. The sensitivity captured here is the difference to the intended model rather than overall model inaccuracy. The main source of model inaccuracy is the estimate of the allocated expense nominal cash amount. ENIDs also represent a challenge in arriving at a well-supported number.

| Element of TP | Balance £M | Sensitivity Estimate | Sensitivity £M | Source of Sensitivity | Notes |
|---|---|---|---|---|---|
| Net Claims Provisions - Attritional | 2.6 | 5% | 0.13 | Accuracy of savings model. High volume, low value claims are subject to accurate statistical analysis and capable of achieving accurate results. | Analysis of run-off of aggregate small claims cost. High confidence in figure. |
| Net Claims Provisions - Large | 4.6 | 15% | 0.69 | Accuracy subject to expert judgement. | High volatility in large claims run-off but small net figure. Original best estimate error lies in case estimate. |
| Claims Expenses | 0.3 | 3% | 0.001 | | Cost of settling outstanding 1,500 claims. |
| Premium Provisions | 3.7 | 8% | 0.27 | Underlying volatility in each class of business. | Uncertainty higher as not yet incurred. Looked at LR volatility over time for portfolio. |
| Contract Boundary | 1.8 | 3% | 0.05 | Estimated premiums. | |
| Expenses - Premium | 1.9 | 15% | 0.28 | Uncertainty over the method of calculation. | Lack of prescribed methods in directive. |
| Reinsurer Payments | 0.974 | 3% | 0.03 | This is the future cost of unexpired risk based on the existing contracts so known figure. | |
| Future Premium Policy Holders | (7.864) | 1% | (0.08) | Absolute number. | Potentially could split a small amount (<£0.2M) into Claims Provisions. |
| ENIDs | 0.400 | 50% | 0.20 | Huge amount of judgement here. Look to refine and benchmark. | Unknown, but low on a probability weighted basis. Record gross and net. |
| Effect of discounting | (0.126) | 3% | (0.004) | Uncertainty is driven by cash flow profiles. Short tail book is relatively insensitive. | Immaterial; pure estimate of 25%. |
| Reinsurer default | 0 | 0% | 0.00 | No allowance made at this stage. | Not material. |
| BEST ESTIMATE | 8.1 | | 1.586 | Sum of individual sensitivities. | |
| Risk Margin | 0.6 | 10% | 0.06 | | |
| TOTAL | 8.7 | | 0.840 | Diversified uncertainty. (Square root of sum of squares of individual sensitivities). | |

## D3 - Other liabilities

Set out in the table below are our other liabilities under Solvency II and GAAP. Except where stated, the valuations of liabilities is in line with those disclosed in Note 3 of the Annual Report available on the Cornish Mutual website.

| | Liabilities | |
|---|---|---|
| **Description** | **Per Solvency II** | **Per GAAP** |
| | £ | £ |
| Reinsurance Payables | 3,244,437 | 3,813,768 |
| Payables (trade, not insurance) | 1,114,285 | 1,114,285 |
| Pension benefit obligations | 0 | 0 |
| Deferred tax liabilities | 0 | 0 |
| Any other liabilities, not shown elsewhere | 0 | 1,530,081 |
| **Total Liabilities** | **4,358,722** | **6,458,134** |

Any other liabilities in the GAAP accounts represents commission income unearned on the unearned proportion of premium ceded to reinsurers. Within the Solvency II balance sheet these amounts are recognised on a written basis and all associated commission has been taken to Members' Funds rather than remain outstanding within liabilities.

### Deferred tax liabilities

Deferred tax liabilities are recognised where transactions or events have occurred at the balance sheet date that will result in an obligation to pay tax in the future.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

The deferred tax liability held in the balance sheet at the reporting date is made up as follows:

| Description | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Unrealised gains on investments | 159,215 | 56,547 |
| Fixed asset timing differences | 9,254 | 7,002 |
| Tax losses carried forward | (168,469) | (63,549) |
| Net deferred tax liabilities | 0 | 0 |
| Net provision for liability at start of period | 0 | 176,841 |
| Deferred tax charge in profit and loss | 0 | (176,841) |
| **Provision for liability at the end of the period** | **0** | **0** |

When realised, the untaxed gains on investments can be offset against the carried forward losses. No specific date has been set for sale of the assets but it is envisaged that these timing differences will expire within the next 3 years.

## Pension benefit obligations

The Cornish Mutual Assurance Company Limited operates a defined benefit pension scheme (the Cornish Mutual Assurance Company Limited Staff Pension Scheme), the assets of which are held in a trustee's bank account and invested with Legal and General.

A valuation of the scheme, on an FRS102 basis, was carried out as at 30 September 2017. For the year end 2019, assumptions are based on the initial results of the triennial valuation as at 31 July 2019. The valuation of the scheme used the projected unit credit method and was carried out by Barnett Waddingham LLP who are professionally qualified actuaries. This valuation basis is the same as the Solvency II basis.

The major assumptions used by the actuary at the balance sheet date were:

| | 2019 |
|---|---|
| Rate of increase in pensions in payment | 3.50% |
| Discount rate | 1.90% |
| Inflation assumption | 3.50% |

The amounts recognised in the statement of financial position were are as follows:

| | 2019 |
|---|---|
| | **£000's** |
| Fair value of assets | 11,583 |
| Present value of funded obligations basic calculation | (9,410) |
| Surplus /(Deficit) in scheme | 2,173 |
| Restriction to surplus | (2,173) |
| Net Pension (Deficit) | nil |

The composition of the fair value of the plan assets can be summarised as follows:

| | 2019 |
|---|---|
| Multi-asset Funds | 34% |
| ARB Funds | 32% |
| Cash | 1% |
| Liability Driven Investment | 33% |

# E. Capital management

## E1 - Own Funds

Cornish Mutual's Own Funds are made up 100% of Members' Funds which equal retained profits, which have arisen from past underwriting and investment surpluses. As such all capital is Tier 1 and there are no restrictions on the availability of Cornish Mutual's own funds to support the MCR or SCR.

Cornish Mutual has adopted the Standard formula as the basis for calculating its solvency capital requirement. The Board have a policy which determines the level of surplus capital it holds in addition to the SCR, currently determined at 150% of MCR. The expectation of meeting the SCR and the higher internal capital requirement in future periods is tested annually.

The Company produces a five year plan with a forecast balance sheet for each year.

The balance sheet for each scenario is subject to stress testing as our Regulator would expect, to ensure they would meet regulatory capital requirements at each future period. Additionally we test these future balance sheets against our own internal capital standard.

As a mutual the Company does not set out to make a specific return on capital. Rather it seeks to use its capital for the benefit of Members by delivering a high quality and cost effective service. The Company does not return capital to Members through any specific distribution mechanism. Accordingly, premiums are maintained at a level which allows for sustainable growth and provides a reasonable expectation that Own Funds meet the capital appetite described above, without generating excessive profits over the five year planning period.

## E2 - Minimum Capital Requirement and Solvency Capital Requirement

Cornish Mutual uses the standard formula as the basis for calculating capital requirements having reviewed the assumptions underlying the formula and assessed them as appropriate for the firm. We have not adopted any simplified calculations or undertaking specific parameters (USPs). Set out below is a summary of Own Funds, which also includes the appendix reference where a more detailed breakdown can be found.

| Description | 2019 Per Solvency II | 2019 Per GAAP | Appendix Reference |
|---|---|---|---|
| | £ | £ | |
| Own Funds | 23,176,169 | 21,261,667 | S.23.01.b |
| Minimum Capital Requirement | 3,288,301 | | S.28.01.b |
| Solvency Capital Requirement | 10,408,048 | | S.25.01.b |
| **Solvency Ratio** | **223%** | | |

| Description | 2018 Per Solvency II | 2018 Per GAAP | Appendix Reference |
|---|---|---|---|
| | £ | £ | |
| Own Funds | 24,821,551* | 22,946,065 | |
| Minimum Capital Requirement | 3,250,561 | | |
| Solvency Capital Requirement | 10,102,060* | | |
| **Solvency Ratio** | **245%** | | |

*These numbers were restated from Own Funds of £24.6m and SCR of £10.1m per the 2018 published SFCR.

Set out below is a summary of our overall MCR Calculation.

## E5 -Non-compliance with MCR and SCR

The company has fully complied with the standard formula calculation of MCR and SCR throughout the period. Cornish Mutual uses the standard formula as the basis for calculating capital requirements having reviewed the assumptions underlying the formula and assessed them as appropriate for the firm.

## S.02.01.01
## Balance Sheet

| Assets | Solvency II value C0010 |
|---|---|
| Goodwill | 0.00 |
| Deferred acquisition costs | 0.00 |
| Intangible assets | 0.00 |
| Deferred tax assets | 0.00 |
| Pension benefit surplus | 0.00 |
| Property, plant & equipment held for own use | 2,680,621.43 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 29,595,942.82 |
| *Property (other than for own use)* | 0.00 |
| *Holdings in related undertakings, including participations* | 0.00 |
| *Equities* | 0.00 |
| *Equities - listed* | 0.00 |
| *Equities - unlisted* | 0.00 |
| *Bonds* | 0.00 |
| *Government Bonds* | 0.00 |
| *Corporate Bonds* | 0.00 |
| *Structured notes* | 0.00 |
| *Collateralised securities* | 0.00 |
| *Collective Investments Undertakings* | 29,595,942.82 |
| *Derivatives* | 0.00 |
| *Deposits other than cash equivalents* | 0.00 |
| *Other investments* | 0.00 |
| Assets held for index-linked and unit-linked contracts | 0.00 |
| Loans and mortgages | 0.00 |
| *Loans on policies* | 0.00 |
| *Loans and mortgages to individuals* | 0.00 |
| *Other loans and mortgages* | 0.00 |
| Reinsurance recoverables from: | 10,182,874.73 |
| *Non-life and health similar to non-life* | 10,182,874.73 |
| *Non-life excluding health* | 10,182,874.73 |
| *Health similar to non-life* | 0.00 |
| *Life and health similar to life, excluding index-linked and unit-linked* | 0.00 |
| *Health similar to life* | 0.00 |
| *Life excluding health and index-linked and unit-linked* | 0.00 |
| *Life index-linked and unit-linked* | 0.00 |
| Deposits to cedants | 0.00 |
| Insurance and intermediaries receivables | 1,593.00 |
| Reinsurance receivables | 2,506,571.76 |
| Receivables (trade, not insurance) | 53,157.76 |
| Own shares (held directly) | 0.00 |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0.00 |
| Cash and cash equivalents | 1,086,655.60 |
| Any other assets, not elsewhere shown | 324,282.00 |
| **Total assets** | **46,431,699.10** |

| Liabilities | Solvency II value C0010 |
|---|---|
| Technical provisions - non-life | 18,896,808.39 |
| *Technical provisions - non-life (excluding health)* | 18,896,808.39 |
| *TP calculated as a whole* | 0.00 |
| *Best Estimate* | 18,323,651.73 |
| *Risk margin* | 573,156.64 |
| *Technical provisions - health (similar to non-life)* | 0.00 |
| *TP calculated as a whole* | 0.00 |
| *Best Estimate* | 0.00 |
| *Risk margin* | 0.00 |
| Technical provisions - life (excluding index-linked and unit-linked) | 0.00 |
| *Technical provisions - health (similar to life)* | 0.00 |
| *TP calculated as a whole* | 0.00 |
| *Best Estimate* | 0.00 |
| *Risk margin* | 0.00 |
| *Technical provisions - life (excluding health and index-linked and unit-linked)* | 0.00 |
| *TP calculated as a whole* | 0.00 |
| *Best Estimate* | 0.00 |
| *Risk margin* | 0.00 |
| Technical provisions - index-linked and unit-linked | 0.00 |
| *TP calculated as a whole* | 0.00 |
| *Best Estimate* | 0.00 |
| *Risk margin* | 0.00 |
| Other technical provisions | |
| Contingent liabilities | 0.00 |
| Provisions other than technical provisions | 0.00 |
| Pension benefit obligations | 0.00 |
| Deposits from reinsurers | 0.00 |
| Deferred tax liabilities | 0.00 |
| Derivatives | 0.00 |
| Debts owed to credit institutions | 0.00 |
| Financial liabilities other than debts owed to credit institutions | 0.00 |
| Insurance & intermediaries payables | 0.00 |
| Reinsurance payables | 3,244,437.24 |
| Payables (trade, not insurance) | 1,114,284.86 |
| Subordinated liabilities | 0.00 |
| *Subordinated liabilities not in BOF* | 0.00 |
| *Subordinated liabilities in BOF* | 0.00 |
| Any other liabilities, not elsewhere shown | 0.00 |
| **Total liabilities** | **23,255,530.46** |
| | |
| **Excess of assets over liabilities** | **23,176,168.64** |

S.05.01.01
Premiums, claims and expenses by line of business

| Non-life | Line of Business for:non-life insurance and reinsurance obligations (direct business and accepted proportional reinsuramce) | | | | | Total |
|---|---|---|---|---|---|---|
| | Motor vehicle liability insurance | Other motor insurance | Fire and other damage to property insurance | General liability insurance | Miscellaneous financial loss | |
| | C0040 | C0050 | C0070 | C0080 | C0120 | C0200 |
| **Premiums written** | | | | | | |
| *Gross - Direct Business* | 3,268,891.29 | 9,806,673.88 | 8,415,614.32 | 2,017,134.52 | 140,813.43 | 23,649,127.44 |
| *Gross - Proportional reinsurance accepted* | | | | | | 0.00 |
| *Gross - Non-proportional reinsurance accepted* | | | | | | 0.00 |
| *Reinsurers' share* | 1,605,122.52 | 4,815,367.56 | 5,258,108.06 | 1,303,663.52 | -0.04 | 12,982,261.62 |
| *Net* | 1,663,768.77 | 4,991,306.32 | 3,157,506.26 | 713,471.00 | 140,813.47 | 10,666,865.82 |
| **Premiums earned** | | | | | | |
| *Gross - Direct Business* | 3,243,955.06 | 9,731,865.18 | 8,304,456.57 | 2,028,209.23 | 146,118.88 | 23,454,604.92 |
| *Gross - Proportional reinsurance accepted* | | | | | | 0.00 |
| *Gross - Non-proportional reinsurance accepted* | | | | | | 0.00 |
| *Reinsurers' share* | 1,604,285.44 | 4,812,856.33 | 5,195,327.43 | 1,309,635.70 | -0.04 | 12,922,104.86 |
| *Net* | 1,639,669.62 | 4,919,008.85 | 3,109,129.14 | 718,573.53 | 146,118.92 | 10,532,500.06 |
| **Claims incurred** | | | | | | |
| *Gross - Direct Business* | 2,695,910.53 | 8,087,731.60 | 3,623,552.46 | 859,672.73 | 88,265.94 | 15,355,133.26 |
| *Gross - Proportional reinsurance accepted* | | | | | | 0.00 |
| *Gross - Non-proportional reinsurance accepted* | | | | | | 0.00 |
| *Reinsurers' share* | 1,174,548.58 | 3,523,645.73 | 1,994,741.20 | 603,004.25 | -5,057.60 | 7,290,882.15 |
| *Net* | 1,521,361.96 | 4,564,085.87 | 1,628,811.26 | 256,668.48 | 93,323.54 | 8,064,251.11 |

S.05.02.01
Premiums, Claims and Expenses by Country

| | C0010 | C0070 |
|---|---|---|
| | Home Country | Total Top 5 and Home Country |
| | C0080 | C0140 |
| **Premiums written** | | |
| Gross - Direct Business | 23,649,127.44 | 23,649,127.44 |
| Gross - Proportional reinsurance accepted | | 0.00 |
| Gross - Non-proportional reinsurance accepted | | 0.00 |
| Reinsurers' share | 12,982,261.62 | 12,982,261.62 |
| Net | **10,666,865.82** | **10,666,865.82** |
| **Premiums earned** | | |
| Gross - Direct Business | 23,454,604.92 | 23,454,604.92 |
| Gross - Proportional reinsurance accepted | | 0.00 |
| Gross - Non-proportional reinsurance accepted | | 0.00 |
| Reinsurers' share | 12,922,104.86 | 12,922,104.86 |
| Net | **10,532,500.06** | **10,532,500.06** |
| **Claims incurred** | | |
| Gross - Direct Business | 15,355,133.26 | 15,355,133.26 |
| Gross - Proportional reinsurance accepted | | 0.00 |
| Gross - Non-proportional reinsurance accepted | | 0.00 |
| Reinsurers' share | 7,290,882.15 | 7,290,882.15 |
| Net | **8,064,251.11** | **8,064,251.11** |
| **Changes in other technical provisions** | | |
| Gross - Direct Business | | 0.00 |
| Gross - Proportional reinsurance accepted | | 0.00 |
| Gross - Non-proportional reinsurance accepted | | 0.00 |
| Reinsurers' share | | 0.00 |
| Net | **0.00** | **0.00** |
| **Expenses incurred** | **4,804,825.45** | **4,804,825.45** |
| **Other expenses** | | 0 |
| **Total expenses** | | **4,804,825.45** |

## S.17.01.01
## Non-Life Technical Provisions

| | Direct business and accepted proportional reinsurance | | | | | | Total |
|---|---|---|---|---|---|---|---|
| | Motor vehicle liability insurance | Other motor insurance | Marine, aviation & transport insurance | Fire and other damage to property insurance | General liability insurance | Miscellaneous financial loss | |
| | C0050 | C0060 | C0070 | C0080 | C0090 | C0130 | C0180 |
| **Technical provisions calculated as a whole** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total recoverables from reinsurance | | | | | | | 0.00 |
| **Technical provisions calculated as a sum of Best Estimate and Risk Margin** | | | | | | | |
| **Best estimate** | | | | | | | |
| **Premium provisions** | | | | | | | |
| **Gross - Total** | 804,201.39 | 1,233,139.61 | 0.00 | 968,922.93 | 576,852.20 | 15,900.26 | 3,599,016.39 |
| Total recoverables from reinsurance | 521,960.28 | 1,094,095.02 | | 1,393,886.48 | 483,889.20 | -975.61 | 3,492,855.38 |
| **Net Best Estimate of Premium Provisions** | 282,241.11 | 139,044.59 | 0.00 | -424,963.55 | 92,963.00 | 16,875.87 | 106,161.01 |
| **Claims provisions** | | | | | | | |
| **Gross - Total** | 2,045,193.91 | 6,135,581.73 | 0.00 | 4,510,740.76 | 2,001,778.85 | 31,340.09 | 14,724,635.34 |
| Total recoverables from reinsurance | 613,920.05 | 2,524,957.49 | | 2,521,116.01 | 1,030,025.80 | 0.00 | 6,690,019.36 |
| **Net Best Estimate of Premium Provisions** | 1,431,273.86 | 3,610,624.24 | 0.00 | 1,989,624.75 | 971,753.04 | 31,340.09 | 8,034,615.98 |
| **Total best estimate - gross** | 2,849,395.30 | 7,368,721.34 | 0.00 | 5,479,663.69 | 2,578,631.05 | 47,240.35 | 18,323,651.73 |
| **Total best estimate - net** | 1,713,514.96 | 3,749,668.83 | 0.00 | 1,564,661.20 | 1,064,716.04 | 48,215.96 | 8,140,776.99 |
| **Risk margin** | 94,344.92 | 203,258.43 | | 166,270.24 | 105,257.33 | 4,025.72 | 573,156.64 |
| **Technical provisions - Total** | 2,943,740.22 | 7,571,979.77 | 0.00 | 5,645,933.94 | 2,683,888.37 | 51,266.07 | 18,896,808.36 |
| **Recoverable from reinsurance contract** | 1,135,880.33 | 3,619,052.51 | 0.00 | 3,915,002.49 | 1,513,915.00 | -975.61 | 10,182,874.73 |
| **Technical provisions minus recoverables from reinsurance** | 1,807,859.88 | 3,952,927.26 | 0.00 | 1,730,931.44 | 1,169,973.37 | 52,241.68 | 8,713,933.63 |

S.19.01.21
Non-Life insurance claims

Total Non-life business

Accident year

## Gross Claims Paid (Non-Cumulative)
(absolute amount)

| | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0170 | C0180 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Development year | | | | | | | | | | | In Current year | Sum of years (cumulative) |
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10+ | | |
| Prior | | | | | | | | | | | 28,306.62 | 28,306.62 | 28,306.62 |
| N-9 | 5,538,414.74 | 2,080,671.30 | 886,669.91 | 328,893.07 | 971,601.14 | 112,837.36 | 8,892.11 | 0.00 | 2,142.86 | 0.00 | | 0.00 | 9,930,122.49 |
| N-8 | 6,067,424.44 | 2,519,186.44 | 632,102.00 | 520,365.92 | 979,755.28 | 759,994.98 | 46,878.33 | 120,921.04 | 61,586.00 | | | 61,586.00 | 11,708,214.43 |
| N-7 | 6,907,308.94 | 3,001,870.06 | 1,018,002.38 | 690,293.67 | 2,458,880.17 | 541,080.51 | 12,869.19 | 0.00 | | | | 0.00 | 14,630,304.94 |
| N-6 | 6,775,244.54 | 2,899,433.22 | 501,573.05 | 566,045.56 | 460,536.31 | 122,125.26 | 66,697.66 | | | | | 66,697.66 | 11,391,655.60 |
| N-5 | 8,726,015.98 | 3,775,430.32 | 459,665.06 | 263,732.06 | 281,662.31 | 63,922.81 | | | | | | 63,922.81 | 13,570,428.54 |
| N-4 | 5,377,224.80 | 2,929,591.06 | 740,604.31 | 655.366.97 | 207,902.22 | | | | | | | 207,902.22 | 9,910,689.36 |
| N-3 | 6,183,761.52 | 3,038,253.99 | 625,580.99 | 386,731.30 | | | | | | | | 386,731.30 | 10,234,327.80 |
| N-2 | 6,230,272.43 | 3,134,765.89 | 679,823.97 | | | | | | | | | 679,823.97 | 10,044,327.80 |
| N-1 | 8,545,703.17 | 3,433,903.07 | | | | | | | | | | 3,443,903.07 | 11,989,606.24 |
| N | 7,109,179.74 | | | | | | | | | | | 7,109,179.74 | 7,109,179.74 |
| | | | | | | | | | | | | 12,048,053.39 | 110,547,698.05 |

## Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

| | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 | C0360 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Development year | | | | | | | | | | | Year end (discounted) |
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10+ | |
| Prior | | | | | | | | | | | 255,978.24 | 255,978.24 |
| N-9 | 0.00 | 0.00 | 0.00 | 0.00 | 103,958.43 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 |
| N-8 | 0.00 | 0.00 | 0.00 | 1,964,588.76 | 1,035,951.41 | 75,500.56 | 244,956.66 | 98,987.71 | 0.00 | | | 0.00 |
| N-7 | 0.00 | 0.00 | 4,376,139.24 | 3,692,816.97 | 606,952.44 | 49,761.37 | 2,000.00 | 0.00 | | | | 0.00 |
| N-6 | 0.00 | 2,018,357.55 | 1,822,887.29 | 1,241,222.44 | 417,985.79 | 64,383.39 | 0.00 | | | | | 0.00 |
| N-5 | 6,185,153.22 | 1,082,786.86 | 1,405,858.83 | 580,664.89 | 192,129.87 | 122,642.02 | | | | | | 122,642.02 |
| N-4 | 5,344,060.75 | 1,687,132.73 | 1,318,760.02 | 461,594.18 | 475,621.71 | | | | | | | 471,539.25 |
| N-3 | 5,412,572.83 | 1,998,477.71 | 1,180,572.76 | 1,062,066.75 | | | | | | | | 1,052,748.35 |
| N-2 | 6,287,752.84 | 3,070,312.82 | 2,132,041.38 | | | | | | | | | 2,114,837.30 |
| N-1 | 6,030,372.94 | 2,917,534.17 | | | | | | | | | | 2,889,531.44 |
| N | 7,898,482.54 | | | | | | | | | | | 7,817,358.73 |
| | | | | | | | | | | | Total | 14,724,635.34 |

## S.23.01.01
## Own Funds

| Basic own funds before deduction for participants in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35 | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| | C0010 | C0020 | C0030 | C0040 | C0050 |
| Ordinary share capital (gross of own shares) | 0.00 | 0.00 | | 0.00 | |
| Share premium account related to ordinary share capital | 0.00 | 0.00 | | 0.00 | |
| Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings | 0.00 | 0.00 | | 0.00 | |
| Subordinated mutual member accounts | 0.00 | | 0.00 | 0.00 | 0.00 |
| Surplus funds | 0.00 | 0.00 | | | |
| Preference shares | 0.00 | | 0.00 | 0.00 | 0.00 |
| Share premium account related to preference shares | 0.00 | | 0.00 | 0.00 | 0.00 |
| Reconciliation reserve | 23,176,168.63 | 23,176,168.63 | | | |
| Subordinated liabilities | 0.00 | | 0.00 | 0.00 | 0.00 |
| An amount equal to the value of net deferred tax assets | 0.00 | | | | 0.00 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | 0.01 | 0.00 | 0.01 | 0.00 | 0.00 |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | 0.00 | | | | |
| **Deductions** | | | | | |
| Deductions for participations in financial and credit institutions | 0.00 | | | | |
| **Total basic own funds after deductions** | 23,176,168.64 | 23,176,168.63 | 0.01 | 0.00 | 0.00 |
| **Ancillary own funds** | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | 0.00 | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand | 0.00 | | | | |
| Unpaid and uncalled preference shares callable on demand | 0.00 | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0.00 | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0.00 | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0.00 | | | | 0 |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0.00 | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0.00 | | | | |
| Other ancillary own funds | 0.00 | | | | |
| **Total ancillary own funds** | 0.00 | | | 0.00 | 0.00 |

## S.23.01.01
## Own Funds
Continued

| Basic own funds before deduction for participants in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35 | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| | C0010 | C0020 | C0010 | C0020 | C0020 |
| **Available and eligible own funds** | | | | | |
| Total available own funds to meet the SCR | 23,176,168.64 | 23,176,168.63 | 0.01 | 0.00 | 0.00 |
| Total available own funds to meet the MCR | 23,176,168.64 | 23,176,168.63 | 0.01 | 0.00 | |
| Total eligible own funds to meet the SCR | 23,176,168.64 | 23,176,168.63 | 0.01 | 0.00 | 0.00 |
| Total eligible own funds to meet the MCR | 23,176,168.64 | 23,176,168.63 | 0.01 | 0.00 | |

| | |
|---|---|
| **SCR** | 10,408,048.22 |
| **MCR** | 3,288,301.00 |
| **Ratio of Eligible own funds to SCR** | 222.68% |
| **Ratio of Eligible own funds to MCR** | 704.81% |

| **Reconciliation reserve** | |
|---|---|
| Excess of assets over liabilities | 23,176,168.64 |
| Own shares (held directly and indirectly) | 0.00 |
| Foreseeable dividends, distributions and charges | |
| Other basic own fund items | 0.01 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0.00 |
| **Reconciliation reserve** | 23,176,168.63 |

| **Expected profits** | |
|---|---|
| Expected profits included in future premiums (EPIFP) - Life business | |
| Expected profits included in future premiums (EPIFP) - Non-Life business | |
| **Total Expected profits included in future premiums (EPIFP)** | 0.00 |

S.25.01.21
## Solvency Capital Requirement - for undertakings on Standard Formula

| Article 112 | Regular reporting | |
|---|---|---|
| | Net solvency capital requirement | Gross solvency capital requirement |
| | C0030 | C0040 |
| Market risk | 7,291,212.36 | 7,291,212.36 |
| Counterparty default risk | 500,749.54 | 500,749.54 |
| Life underwriting risk | | |
| Health underwriting risk | | |
| Non-life underwriting risk | 4,502,198.76 | 4,502,198.76 |
| Diversification | -2,589,750.60 | -2,589,750.60 |
| Intangible asset risk | | 0.00 |
| **Basic Solvency Capital Requirement** | 9,704,410.07 | 9,704,410.07 |

| **Calculation of Solvency Capital Requirement** | C0100 |
|---|---|
| Adjustment due to RFF / MAP nSCR aggregation | |
| Operational risk | 703,638.15 |
| Loss-absorbing capacity of technical provisions | 0.00 |
| Loss-absorbing capacity of deferred taxes | |
| Capital requirement for business operated in accordance with Art.4 of Directive 2003/41/EC | |
| **Solvency Capital Requirement excluding capital add-on** | 10,408,048.22 |
| Capital add-ons already set | |
| **Solvency capital requirement** | 10,408,048.22 |

| **Other information on SCR** | |
|---|---|
| Capital requirement for duration-based equity risk sub-module | |
| Total amount of Notional Solvency Capital Requirements for remaining part | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | |
| Diversification effects due to RFF nSCR aggregation for article 304 | |
| Method used to calculate the adjustment due to RFF / MAP nSCR aggregation | No adjustment |
| Net future discretionary benefits | 0.00 |

## S.28.01.01
## Minimum Capital Requirement

| Linear formula component for non-life insurance and reinsurance obligations | C0010 |
|---|---|
| MCR Result | 1,570,785.16 |

| | Net (of reinsurance / SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|
| | C0020 | C0030 |
| Medical expense insurance and proportional reinsurance | 0.00 | 0.00 |
| Income protection insurance and proportional reinsurance | 0.00 | 0.00 |
| Workers' compensation insurance and proportional reinsurance | 0.00 | 0.00 |
| Motor vehicle liability insurance and proportional reinsurance | 1,713,514.96 | 1,663,768.77 |
| Other motor insurance and proportional reinsurance | 3,749,668.83 | 4,991,306.32 |
| Marine, aviation and transport insurance and proportional reinsurance | 0.00 | 0.00 |
| Fire and other damage to property insurance and proportional reinsurance | 1,564,661.20 | 3,157,506.26 |
| General liability insurance and proportional reinsurance | 1,064,716.04 | 713,471.00 |
| Credit and suretyship insurance and proportional reinsurance | 0.00 | 0.00 |
| Legal expenses insurance and proportional reinsurance | 0.00 | 0.00 |
| Assistance and proportional reinsurance | 0.00 | 0.00 |
| Miscellaneous financial loss insurance and proportional reinsurance | 48,215.96 | 140,813.47 |
| Non-proportional health reinsurance | 0.00 | 0.00 |
| Non-proportional casualty reinsurance | 0.00 | 0.00 |
| Non-proportional marine, aviation and transport reinsurance | 0.00 | 0.00 |
| Non-proportional property reinsurance | 0.00 | 0.00 |

| Linear formula component for life insurance and reinsurance obligations | C0040 |
|---|---|
| MCR Result | 0.00 |

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

| Overall MCR calculation | C0070 |
|---|---|
| Linear MCR | 1,570,785.16 |
| SCR | 10,408,048.22 |
| MCR cap | 4,683,621.70 |
| MCR floor | 2,602,012.05 |
| Combined MCR | 2,602,012.05 |
| Absolute floor of the MCR | 3,288,301.00 |

| | |
|---|---|
| **Minimum Capital Requirement** | **3,288,301.00** |