Irwell Insurance Company Limited

Solvency and Financial Condition Report (SFCR)

As at 31 March 2021

Contents

Executive Summary

The purpose of this Solvency and Financial Condition Report (SFCR) is to provide information required by the Solvency II regulatory framework in respect of Irwell Insurance Company Limited (Irwell) for the year ended 31 March 2021. This report contains qualitative and quantitative information on Irwell's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management. The SFCR has been prepared in accordance with the relevant PRA Rules and Solvency II regulations.

Business and performance

Irwell continues to operate profitably in its specialist area of insuring employment and taxation risks, and in the 2021 financial year, all business was written through companies in the Peninsula Business Services Group Limited ('PBSG'), acting as intermediaries. The Solvency II lines of business written are legal expenses and general liability. With the exception of a small amount of business that was written in the Republic of Ireland (ROI), all business is written in the UK. Due to the impact of Brexit, Irwell ceased to write business in ROI from 1st January 2021 and is reporting the run-off of Irish business to the Central Bank of Ireland through its Temporary Run-Off Regime.

During the year ended 31st March 2021, the Company made the decision to expand both its product range and market going forward. Irwell has therefore taken steps to begin this rollout, but as at the year end was not operating in any market or with any products other than those previously offered.

Gross premiums earned were broadly in line with prior year at £25.0m. A reduction in premiums earned in ROI due to Brexit has been offset by increases in those written through the Bright HR and Croner Group intermediaries.

Irwell made an underwriting profit before profit commission of £8,814k compared to £2,190k in the previous year. This result generated a profit commission of £2,200k (2020: £595k). The majority of this increase in profitability was driven by a reduction in claims, due to the impact of COVID-19, particularly in the tax fee protection business.

Irwell's investments generated a return of £1,308k (net of investment expenses of £147k) in the year to 31 March 2021 compared with a return of £70k in the previous year. The overall return included loan interest receivable of £nil (2020: £250k). In the prior year, the performance of the bond portfolio was significantly impacted by the COVID-19 related market falls in March 2020, and the reversal of this fall in the twelve months since has contributed to the returns in FY21.

No dividend has been declared for FY21 (2020: £3m).

System of governance

Irwell is confident in the robustness of its governance procedures, considering them to be both appropriate and proportionate. Outsourced actuarial and internal audit teams support the governance systems and framework and provide a robust system of checks and balances.

The Board normally meets four times a year. The Board members are provided with appropriate and timely information to enable them to review the Company's business strategy, operations, trading performance, regulatory compliance and risk management. The Board is supported by three board committees, the Audit Committee (AC), the Risk Committee (RC) and the Remuneration Committee. Going forward, Irwell intends to review whether additional committees are required to manage the change in business strategy.

Irwell's key functions are risk management, compliance, actuarial, internal audit, outsourcing and investment management. These functions are responsible for providing oversight of the relevant area and assurance to the Board on the operation of the Company's risk management framework. Responsibility for each key function is assigned to one or more board members, the AC or the RC.

Irwell has established clear roles and responsibilities for risk management, operating on a model with three lines of defence. Each has clear reporting lines to the Board to ensure that information relating to risk matters is appropriately communicated. Key changes to the management structure are being implemented going forward, in line with the new direction of the travel for the business. These changes to the structure will be reflected in the governance framework and include bringing in team members experienced in insurance underwriting and claims to take up key roles in the Company and provide an informed perspective on new business.

Irwell's Own Risk and Solvency Assessment (ORSA) process is an integral part of its risk management system. Responsibility lies with the executive directors for creating the ORSA and considering all areas of risk, and they are assisted by the detailed oversight and challenge performed by the RC. The Board is ultimately responsible for accepting and signing off the ORSA and ensuring its completeness.

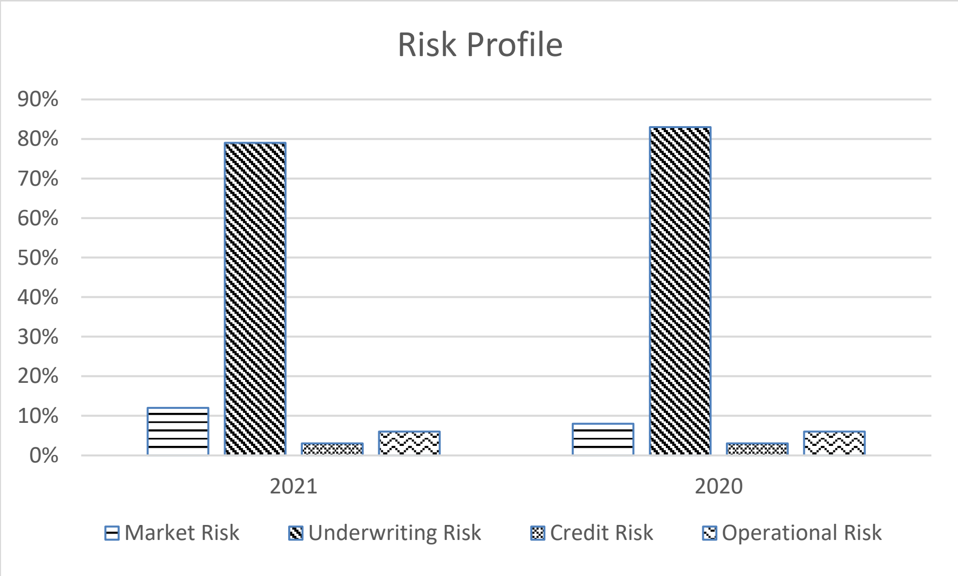
Further details of Irwell's system of governance are included in section B of this report.

Risk profile

Irwell calculates its Solvency Capital Requirement (SCR) using the Standard Formula. For Irwell, this calculation is based on four risk categories, being non-life underwriting risk, market risk, credit risk and operational risk.

The types of risk to which the company is exposed have not changed significantly over the year. Risk identification is carried out on a regular basis through the Company's RC, based on a combination of internal and external factors, and the Company's risk documentation is updated as necessary. Material risk exposures are mitigated though a combination of internal controls and capital allocations.

The chart below shows the composition of Irwell's undiversified SCR as at 31 March 2021 together with a comparison with the prior year:



Underwriting risk

Underwriting risk includes reserving risk and catastrophe risk and represents the most significant risk that Irwell is exposed to, comprising 80% (2020: 83%) of the Company's undiversified risk profile. There has been no change in the business written by the Company in the year. This change in the underwriting risk contribution to the overall risk profile is largely the result of an overall decrease in the SCR, which is driven by a decrease in the concentration risk component of the market risk type (see market risk below).

Market risk

Market risk includes interest rate risk, spread risk and concentration risk and is the second most significant risk type for Irwell. The undiversified SCR for market risk has increased to 12% of the overall risk profile, compared with 8% in the prior year.

Irwell's investment strategy is focused on capital preservation and ensuring sufficient liquidity to meet claims and expenses on an ongoing basis. As a result Irwell has a low risk, well diversified portfolio of investment assets which is fully compliant with the prudent person principle.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Irwell is exposed to credit risk in relation to overdue premium receivables (type 2 counterparties) and in respect of deposits with banks (type 1 counterparties). Investment credit risk is dealt with within market risk. During the year, the Company did not purchase reinsurance and therefore credit risk relating to amounts due from reinsurers does not apply.

At 31 March 2021, credit risk comprised 3% of the Company's undiversified SCR (2020: 3%).

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. At 31 March 2021, operational risk comprised 5% of the Company's undiversified SCR (2020: 6%).

Further details of Irwell's risk profile are set out in section C of this report.

Valuation for solvency

Assets, technical provisions and other liabilities are valued for solvency purposes according to the Solvency II Directive and related guidance. The principle that underlies the valuation methodology for Solvency II purposes is the amount for which assets and liabilities could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

The following table sets out the differences between the solvency valuation and the valuation in the financial statements:

	2021	**2020**
	£'000	**£'000**
Shareholders' equity per the financial statements	27,976	21,561
Solvency adjustments and reallocations - assets	(12,983)	(14,308)
Solvency adjustments and reallocations – technical provisions	9,181	10,442
Solvency adjustments and reallocations – other liabilities	2,985	3,796
Total own funds on a Solvency II basis	**27,159**	**21,491**

Valuation adjustments to assets relate principally to the removal of deferred acquisition costs, which are not recognised as an asset for solvency purposes, and insurance receivables, which are netted off technical provisions in the Solvency II balance sheet.

Valuation adjustments to technical provisions reflect the Solvency II requirement for technical provisions to be a best estimate of liabilities relating to insurance contracts plus a risk margin. Best estimate liabilities are calculated as the discounted best estimate of all future cash flows relating to both claim events prior to the valuation date and future exposures arising from policies that the insurer is obligated to at the valuation date.

Valuation adjustments to other liabilities comprise the removal of insurance payables which are netted off technical provisions in the Solvency II balance sheet.

The COVID-19 pandemic has had little impact on the solvency valuation for FY21 results.

Further details of Irwell's valuation of assets and liabilities for solvency purposes are set out in section D of this report.

Capital management

Under Solvency II, insurance companies are required to hold eligible own funds at least equal to the SCR at all times. In order to ensure continuous compliance with the regulatory capital and solvency position, the objective of the Company is to maintain own funds so as to hold a buffer over the SCR of at least 50%.

The Company's SCR at 31 March 2021 is £10,547k (2020: £11,072k). This is covered by £27,159k (2020: £21,491k) of eligible capital resources, giving a Solvency II surplus of £16,612k (2020: £10,419k) and a capital ratio of 258% (2020: 194%). It is not expected that any reasonable stresses applied would cause Irwell's solvency ratio to drop below required levels.

Further details of Irwell's capital management are set out in section E of this report.

C Houghton Chairman 2 July 2021

A. Business and Performance

A.1 Business

Name and legal form of the undertaking

Irwell Insurance Company Limited (Irwell) is a private company limited by shares. The Company operates from a single office, the address of which is:

2 Cheetham Hill Road, Manchester, M4 4FB

This is also the registered office of the Company.

The Company has no related undertakings or branches.

Regulator

The Company is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The PRA is responsible for the financial supervision of insurance companies and is therefore the supervisor for the purposes of Solvency II regulation. The address of the PRA is:

20 Moorgate
London EC2R 6DA

External auditors

The external auditors are:

PKF Littlejohn LLP
15 Westferry Circus, Canary Wharf, London E14 4HD

Ownership

The Company has two shareholders. The controlling party is the beneficiaries of the Fred Done 1998 Children's Life Interest Settlement, a trust fund set up by F. Done into which has been placed 2,638,296 shares (65.96%). The beneficiaries are the children of F. Done.

The other shareholder is P. Done, who holds 1,361,704 shares in the Company (34.04%).

Material Lines of Business and Geographical Areas

The principal activity of the Company is the transaction of general insurance business. Throughout the year ended 31st March 2021, all business was written through companies in PBSG acting as intermediaries being Peninsula Business Services Limited ('PBS'), Croner Group Limited ('CG'), Croner Taxwise Limited ('CTW') and Bright HR Limited ('BHR'). The business written through PBS, CG and BHR provides indemnity against awards and costs relating to employment tribunal claims and legal costs relating to potential breaches of Health and Safety legislation and that written through CTW provides indemnity against professional fees relating to HM Revenue & Customs investigations.

Most of Irwell's business is UK based although approximately 4% of business historically has come from the Republic of Ireland. From 1st January 2021, Irwell ceased to write new business in ROI and is not licensed to write business in any EU country following Brexit.

A. Business and Performance (continued)

During the year, Irwell made the decision to expand its lines of business, as well as increasing the markets that it operates in. No new lines of business were written during the year ended 31st March 2021, but they have been included in the forecast figures going forward. In addition, although Irwell will continue to write business through PBSG subsidiaries, it will also take on new intermediaries to write business through.

Significant business or external events in the year

COVID-19

On 11 March 2020, the World Health Organization declared the outbreak of a global pandemic, COVID-19. During the following year, the actions of governments worldwide to try and reduce the spread of the virus have had a significant impact on the global economy. The PRA confirmed that it deemed the pandemic to be a significant event, and therefore the impact of COVID-19 has been reviewed:

Underwriting performance:

The pandemic had a significant impact on the operations of many businesses, and in the initial months of the FY21 year, a downturn in volumes of claims was noted across both the tax fee protection and employment lines of business, as many customers prioritised setting up new working from home arrangements. The government's Job Retention Scheme (JRS) grant helped many companies continue operating and reduced the number of redundancies made. This resulted in fewer claims under the employment policies, further assisted by the fact that claims linked to the operation of the JRS grant were not covered under the policies. Employment claims did soon start to return to normal levels however, and the claims incurred in the year totalled £2.4m compared to £2.5m in FY20. In comparison, the number of tax fee protection claims raised was lower for the majority of the year as HMRC focussed their attention on setting up the JRS grant, therefore having less resource to allocate to tax investigation work. This resulted in claims incurred for the tax protection business in the year of £5.8m compared to £11.6m in the prior year.

Whilst the pandemic had a significant impact on the claims raised during the year, it caused little variance in the premiums written. Total premiums written in the year were £23.3m, down from £25.6m in FY20, but the majority of this variance was due to Irish policies, as described in the Brexit section below.

Investments

In March 2020, the uncertainty caused by the pandemic resulted in a reduction in the value of the investments portfolio. Throughout the year, the investment performance has recovered, and the security of the bond portfolio has been reviewed within the Investments section below.

Brexit

Following the UK's exit from the European Union ('EU') on 31 January 2020, Irwell took the decision not to seek to obtain permission to write new business or issue renewals to existing business outside the UK after the transition period ended on 31 December 2020. The Company therefore ceased to write business in ROI from 1st January 2021. The majority of the existing business was cancelled in April 2021, with the Peninsula Business Services (Ireland) Limited (PBSI) transferring their customers to an alternative product. The remaining policies are in a period of run-off, making use of the Central Bank of Ireland's Temporary Run-Off Regime.

A.2 Underwriting Performance

Underwriting performance

The following table summarises the underwriting performance of the Company:

	Legal expenses	*General liability*	*Total*
	£000	*£000*	*£000*
2021			
Gross premiums written			
- UK	20,310	3,968	24,278
- Ireland	(434)	(557)	(991)
	19,876	**3,411**	**23,287**
Gross premiums earned	20,817	4,232	25,049
Gross claims incurred	(7,152)	(1,259)	(8,411)
Net operating expenses	(8,932)	(1,092)	(10,024)
Underwriting profit	**4,733**	**1,881**	**6,614**
Loss ratio	**34.4%**	**29.7%**	**33.6%**
Operational expense ratio	**42.9%**	**25.8%**	**40.0%**
Combined ratio	**77.3%**	**55.6%**	**73.6%**
2020			
Gross premiums written			
- UK	20,882	3,809	24,691
- Ireland	453	480	933
	21,335	**4,289**	**25,624**
Gross premiums earned	20,990	3,852	24,842
Gross claims incurred	(12,843)	(1,266)	(14,109)
Net operating expenses	(8,076)	(1,062)	(9,138)
Underwriting profit	**71**	**1,524**	**1,595**
Loss ratio	**61.2%**	**33.1%**	**56.8%**
Operational expense ratio	**38.5%**	**27.5%**	**36.8%**
Combined ratio	**99.7%**	**60.6%**	**93.6%**

A. Business and Performance (continued)

Net operating expenses are analysed as follows:

	Legal expenses	*General liability*	*Total*
	£000	*£000*	*£000*
2021			
Acquisition costs	(6,461)	(386)	(6,847)
Administrative expenses	(843)	(134)	(977)
Profit commission	(1,628)	(572)	(2,200)
Net operating expenses	**(8,932)**	**(1,092)**	**(10,024)**
2020			
Acquisition costs	(7,198)	(586)	(7,784)
Administrative expenses	(601)	(158)	(759)
Profit commission	(277)	(318)	(595)
Net operating expenses	**(8,076)**	**(1,062)**	**(9,138)**

Gross premiums written have reduced by 9% year on year, mainly due to the writing back of the Irish policies written. Premiums earned were broadly in line with prior year.

The overall loss ratio of 33.6% was a significant improvement from prior year 56.8%. This was mainly due to a reduction in the Legal Expenses loss ratio from 61.2% in FY20 to 34.4% in FY21. In the past 12 months, the main focus of the government and many businesses has been the containment and management of the COVID-19 pandemic, as well as the introduction of the Job Retention Scheme (JRS) managed by HMRC to reduce redundancies during this period. This has resulted in a reduction in investigations opened by HMRC, which would be covered under the Tax element of the Legal Expenses insurance. Due to the nature of the insurance, it is not expected that this will result in a comparative increase in future years.

Claims under General Liability have also reduced, resulting in a loss ratio of 29.7% compared to 33.1% in prior year. No claims relating to the management of the JRS grant were covered under the policies, and this grant helped to reduce the number unfair dismissal claims that were raised as employers were incentivised to retain staff.

By the end of FY21, claim volumes across both lines of business were starting to return to normal levels.

Irwell made an underwriting profit before profit commission in the year to 31 March 2021 of £8,814k compared to £2,190k in 2020. As a result, profit commission of £2,200k was payable for the year, compared to just £595k in FY20.

Reinsurance

The Company did not have a requirement for reinsurance in FY21 or previous years, as the catastrophe risk is deemed to be very low in relation to the lines of business being written. The catastrophe risk and requirement for reinsurance across the business is reviewed on a regular basis.

A.3 Investment Performance

Overall investment performance

Irwell's investment portfolio is managed by Bank J Safra Sarasin (Gibraltar) Limited (JSS). The Company's outsourced investment managers operate under Irwell's approved investment policy, maintaining a cautious investment strategy with a portfolio predominantly comprised of short and intermediate dated bonds. The policy also mandates strict requirements regarding investment type, grade and counterparty exposure limits.

At 31 March 2021, the Company's investment portfolio comprised the following:

	31 March 2021		*31 March 2020*	
	£000	*% of total*	*£000*	*% of total*
Government bonds	2,078	4	5,205	13
Corporate bonds	35,422	77	25,608	66
Cash and cash equivalents	8,054	17	8,081	21
Futures contract	766	2	-	-
Loans	-	-	-	-
Total	**46,320**	**100**	**38,894**	**100**

Amounts are shown inclusive of accrued income.

The Company has no investments in securitisations.

Exchange traded derivatives are approved for hedging purposes only, where such instruments can be shown to improve the quality, profitability, liquidity or security of the portfolio. The Company held a small value in futures contacts at the year end, but no derivatives are expected to be held by the end of the following year.

The investment yield for the year ended 31 March 2021 was as follows:

	31 March 2021		*31 March 2020*	
	£000	*% of income*	*£000*	*% of income*
Government bonds	(44)	(3)	113	58
Corporate bonds	1,446	99	(97)	(50)
Cash and cash equivalents	5	1	31	16
Futures contracts	48	3	(103)	(53)
Loans	-	-	250	129
Investment income (including realised and unrealised gains and losses	**1,455**	**100**	**194**	**100**
Investment expenses	(147)		(124)	
Total	**1,308**		**70**	

In March 2020, the investment portfolio value was impacted by the uncertainty created by the announcement of the pandemic, resulting in a drop in value in the month of circa £800k to £31.9m. In the 12 months following, boosted by lower interest rates, investment performance has moderated as markets begin to price a build-up of inflationary pressures resulting from the reopening of the UK and the global economy. The credit quality of the bond portfolio could be described as strong, with 100% of the assets held in Investment Grade bonds with the following rating breakdown: AAAs 13%, AAs 21%, As 42% and BBBs 24%. The portfolio is well diversified both regionally and from a sector point of view. The UK is home to 1/3 of bond investments followed by the US and the Netherlands whilst banks attract 35% of the assets. Individual exposure to any single issuer is limited to 2.5% for A rated issuers and above and to 1.5% to BBB-rated issuers. Duration risk is relatively low at 2.4 years including derivatives, with most investments held in the 1-to-3 year maturity bucket. 75% of securities held rank as Senior unsecured, 23% are secured (either covered or collateralised) and 2% are Government bonds.

Although there is still some uncertainty in the market due to the ongoing pandemic, Irwell's cautious investment strategy reduces the Company's exposure to risk, and it is expected that any swing in the values of the investments would be covered by excess reserves held.

A.4 Performance of other activities

Irwell has no leasing arrangements.

There are no other income streams other than those mentioned in A.2 and A.3 above.

A.5 Any other information

There is no material information regarding Irwell's business and performance to be disclosed other than as detailed in A.1-4 above.

B. Systems of Governance

B.1 General information on the system of governance

General governance arrangements

Board

The Board has ultimate responsibility for organising and controlling the Company's business. Its principal functions are to determine the Company's risk appetite and business strategy, to have oversight of the Company's operations and performance and regulatory compliance and to ensure that the Company has an effective risk management process. The Board normally meets four times a year.

Board committees

The Board uses a number of board committees to assist it in performing its oversight functions, as follows:

Audit committee (AC)

The Board formally delegates responsibility for audit matters to the AC. The committee meets at least four times a year. Its terms of reference cover the following principal areas:

- review and monitoring of the internal and external audit processes;
- monitoring the financial reporting process;
- monitoring the outsourced actuarial function;
- monitoring the outsourced investment management function;
- review and approval of the 3-year business plan;
- review and documentation of the Company's governance arrangements;
- review of the company's internal controls.

Risk committee (RC)

The RC provides support and advice on risk related matters. The committee meets at least four times a year. Its terms of reference cover the following principal areas:

- oversight of the company's risk management systems including the identification and management of key risks and emerging issues;
- developing proposals regarding the Company's risk appetite for review and approval by the Board;
- oversight of the development of the annual Own Risk and Solvency Assessment (ORSA) and review and approval of the ORSA for submission to the Board;
- oversight of the compliance function and review of compliance reports;
- periodic review of the Company's outsourcing policy;
- review of whistleblowing procedures.

B. Systems of Governance (continued)

Remuneration committee

The remuneration committee has responsibility for overseeing the development and implementation of the Company's remuneration policies.

Executive management

Day to day management of the business is in the hands of the executive management team, which is responsible for risk management, compliance, underwriting policy, claims review and approval, claims reserving, investment management and finance and administration.

Historically, the executive management team has comprised three executive directors, being the CEO, the CFO and the Chairman. During the year, the business has recruited additional senior managers to support the executive directors, including a Head of Underwriting and Head of Operations.

Investment management during the reporting year, along with custodial services, was provided by JSS, operating under an investment policy approved by the board. Executive management is responsible for the regular monitoring of investment performance and adherence to the agreed policy.

The Company uses contractors or consultants as appropriate to provide investment management services, actuarial services, internal audit services and IT management, bookkeeping services and compliance checking services.

Key functions

Irwell has established the four key functions required by the Solvency II directive. These are:

- Risk management
- Compliance
- Actuarial
- Internal Audit

In addition, the following functions have been classed as key to Irwell's operations:
- Outsourcing
- Investment management

These functions are responsible for providing oversight of the relevant area and assurance to the Board on the operation of the Company's risk management framework. All functions are overseen by one or more executive directors, the AC or the RC, thus ensuing they have the appropriate authority to perform their roles.

Risk management

The key function holder is the Chief Risk Officer (CRO). The RC provides oversight as to the reasonableness, proportionality and effectiveness of the Company's prudential risk management, regulatory compliance and internal control systems.

B. Systems of Governance (continued)

The Irwell Board has ultimate responsibility for risk management and the function therefore has the required authority to fulfil its role.

Compliance

The CRO performs the function of Compliance Officer and is responsible for both day-to-day compliance monitoring and regular reporting to the Board on compliance related matters. The compliance functions of the outsourced intermediaries are subject to periodic review by internal audit.

The RC considers and approves the compliance monitoring programme for the forthcoming year annually.

The compliance function formally reports to the RC on a quarterly basis and to the Board on a six-monthly basis.

The Compliance Officer is assisted in the performance of the role by an external contractor.

Actuarial

The Actuarial Function has specific duties and responsibilities under Solvency II. Irwell outsources Actuarial Function holder support to Barnett Waddingham LLP, with oversight from the Chairman, who is the board member responsible for oversight of the Actuarial Function. The outsourcing arrangement ensures that the Actuarial Function is operationally independent.

The Actuarial Function Report is prepared and presented to the Board at least annually.

Internal audit

Irwell's Internal Audit function is overseen by the AC. Internal Audit is responsible for evaluating the approach to risk management and governance, with particular emphasis on the internal control system.

Irwell outsources the Internal Audit function to Mazars LLP, who have the skills, knowledge and expertise to provide the services and are entirely independent from operational aspects of the business.

The Internal Audit function is authorised to review all areas of the Company and its business and it therefore entitled to have full and unrestricted access to all information, records, property, personnel and activities. Board members have a duty to make all requested information available promptly and to assist with any enquiries.

The AC approves the internal audit plan, taking advice on known and potential risks. In addition, the AC receives and reviews the reports produced by Internal Audit.

Outsourcing

Irwell operates a business model under which most services provided to the Company are outsourced. Therefore, an important function of executive management is the control and regular monitoring of these outsourced functions and the executive management team is collectively responsible for this oversight. In support of this activity, the Company has a comprehensive, documented outsourcing

B. Systems of Governance (continued)

policy, covering scoping, selection, governance, regulatory compliance, performance management and data and information requirements. All intermediaries are regulated by the FCA in their own right and provide Irwell with regular compliance reports.

Going forward, it is expected that a number of the functions currently outsourced will be brought in-house. This includes most of the claims management, with a claims management team joining the Company from 1st April 2021. Other outsourced functions will continue operating as they do currently, and will be reviewed on a regular basis.

The CEO has overall ownership of the outsourcing policy, which is reviewed and approved by the RC at least once a year. Ultimate responsibility for the outsourcing of key functions and activities lies with the Irwell Board.

Investment management

The investment management is outsourced to independent investment managers who operate under an investment strategy approved by the board. Executive management is responsible for the regular monitoring of investment performance and adherence to the agreed strategy and provides a quarterly report to the Board.

Material changes

There are material changes to the governance framework in the pipeline to support the revised business strategy.

The governance framework will be revised to account for these changes and will be approved by the Board prior to implementation.

Remuneration policy

Irwell has a Remuneration Committee that is responsible for reviewing the salary frameworks of employees. and meets yearly to approve the salaries of the executive directors. The Remuneration Committee ensures that all salary frameworks are appropriate, and do not encourage the unfair treatment of customers through performance-based remuneration and other incentives.

Related party transactions

F. Done and P. E. Done are the ultimate controllers of this Company. Throughout the year they were also directors of and owed a controlling interest in PBSG which is the parent of Peninsula Business Services Limited, a company of which P. E. Done is also a director. In June 2020, F. Done resigned as a director of PBSG. Throughout the year ended 31st March 2021, Irwell only wrote business for the clients of PBSG and its subsidiary companies. Therefore, all premiums received and all claim payments are made via PBSG and its subsidiary companies. Cash settlement is made within 30 days of each month end. During the year, PBSG's subsidiary companies performed part of the administration services on behalf of the Company. These companies received a fee of £10k (2020: £10k) and received commission paid by the Company totalling £8,111,000 (2020: £6,911,000) of which £2,217,000 (2020: £2,846,000) was owed at the year-end. They also received fees for claims handling expenses of £1,390,000 (2020: £1,441,000), which are included in claims paid.

B.2 Fit and proper requirements

So as to enable sound and prudent management of the Company, a policy is in place to ensure that persons appointed to manage the Company's business activities are fit and proper. As part of that policy, an assessment is made prior to appointment to a role to ensure that the individual has both the appropriate knowledge and skills through their professional qualifications and/or experience, and is of good repute and integrity. This assessment takes place prior to appointment to a role and is reviewed periodically thereafter by the Board.

Executive management of the Company collectively possess competence, experience and knowledge in at least the following areas:

- Insurance and financial markets
- Business strategy
- Systems of governance
- Financial and actuarial analysis
- Risk management
- Regulatory requirements

B.3 Risk management system including the own risk and solvency assessment (ORSA)

Risk Management

Irwell has in place a Corporate Governance Framework which incorporates the Company's risk management policy. This framework sets out the principles for managing risk within Irwell and describes the risk management roles and responsibilities of individuals, and the Board and its committees. The Corporate Governance Framework is reviewed and updated as necessary on a regular basis in the light of changes to the Company's risk profile, external risk factors and developments in best practice.

Irwell has implemented a robust model for risk management with three main lines of defence, as follows:

First line of defence

The first line of defence owns and manages risk on a day-to-day basis. For Irwell, this consists of the executive management team together with its intermediaries, to whom underwriting and claims handling is outsourced, and the outsourced actuarial function. All share responsibility for risk management at the operational level.

Going forward, the Irwell will be bringing the claims management in-house, thereby reducing the reliance placed on the intermediaries for the management of this aspect of risk.

B. Systems of Governance (continued)

Second line of defence

The second line of defence provides the oversight and advice necessary to support the first line of defence in identifying, managing and monitoring risk. For Irwell, this comprises the Risk Management and Compliance functions. The Risk Committee has responsibility for the risk and compliance management on a day-to-day basis, and further information on the Compliance Function is given in B4 below.

Third line of defence

The third line of defence provides independent assurance that risk management and the internal control system are working as designed. For Irwell, this comprises the Internal Audit function. Further information on the Internal Audit Function is given in B5 below.

The CRO is responsible for the day-to-day operation of Irwell's risk management processes and the production of management information that allows for timely and relevant decision making on risk related matters. The CRO is also responsible for the on-going maintenance of the risk register. The risk register identifies all material risks the Company faces in relation to the implementation of its strategic objectives and details of mitigating actions in place for all risks identified.

The intermediaries supply management information to an agreed timetable to support the process, including:

- Underwriting and claims data;
- TCF MI including insurance complaints, and
- Operational compliance monitoring.

The RC has oversight of the Company's risk process and is responsible for advising the Board on risk issues, including the Company's risk appetite and risk strategy. In performing this function, the RC considers risk reports and other management information. The RC also undertakes regular reviews of the risk register, and reviews it formally at least annually, and makes recommendations regarding additions/modifications to the register as appropriate. The Board has ultimate responsibility for risk related issues.

ORSA process

The executive management team is jointly responsible for all aspects of the process for producing the Company's ORSA. The ORSA is reviewed and signed off by the Board. The ORSA sets out details of the Company's current business strategy and risk appetite and details of all material risks that Irwell faces in pursuit of its business objectives.

Irwell uses the standard formula to calculate its SCR. The ORSA includes consideration of whether the SCR calculated in this way is appropriate given our actual risk profile. The ORSA also includes consideration of whether there are any current or emerging risks in Irwell which are not covered explicitly by the standard formula.

B. Systems of Governance (continued)

The Company operates on a three-year business plan. The ORSA therefore includes consideration of the business plans over that period, and any anticipated changes in risk appetite and risk profile. This includes consideration of any potential changes to current risks and the impact of any emerging risks.

Irwell's policy is for the ORSA to be produced annually. An updated ORSA would be prepared at an intermediate stage in the event that there is any significant change to the risk profile.

The most recent forecast produced included assumptions for new lines of business and new intermediaries, and the 2021 ORSA will include a review of the Company's risk position with these changes taken into account.

ORSA inputs

The key inputs to the ORSA process are:

- The Irwell risk management process
- The business planning process
- The Solvency II balance sheet and SCR calculation

ORSA Activities

The following activities are performed annually in support of the production of the Company's ORSA:

- Projection of Solvency II technical provisions, Solvency II balance sheet and calculation of the SCR (using the standard formula) over the three year planning period;
- Performance of stress and scenario testing, encompassing all material risks that are covered by the standard formula. The effects of the selected stresses and scenarios are quantified using management's own expert knowledge of the business;
- Consideration of whether there are any further risks not covered by the standard formula that are capable of being measured quantitatively, and
- Calculation of an ORSA capital requirement based on the outcome of our stress and scenario testing.

ORSA Outcomes

The outcome of the ORSA process is an ORSA report that covers the following areas:

- A description of the Company's current business strategy and appetite for risk in pursuing that strategy;
- An assessment of all material risks facing the Company and the mitigating actions in place;
- An assessment of any emerging risks impacting the Company's business strategy;
- The Company's own view of its current capital and solvency requirements based on management's expert understanding of the business and appropriate stress and scenario testing; and
- The Company's forward-looking view of its capital and solvency position over a three year planning period.

The ORSA report is used by the Board for the following purposes:

B. Systems of Governance (continued)

- Confirmation that all material risks facing the business have been identified together with appropriate mitigating actions;
- Concurrence that the risks detailed are within the agreed risk tolerances;
- Concurrence with the view expressed regarding the current and forward looking capital assessments;
- Confirmation that the level of capital held by the Company is appropriate; and
- Concurrence that the Company will be able to withstand any reasonably foreseeable shocks over the next three years.

B.4 Internal control system

Internal controls

Irwell's internal control system is designed to ensure the effectiveness and efficiency of its operations, to enable the Company to manage its risks and to ensure compliance with its legal and regulatory obligations. The activities comprising the internal control system are detailed within the Company's Governance Framework referred to in B3 above. These include controls which are operated within the key functions of the business, reviews and reporting performed as part of the risk management and compliance functions and the independent assurance provided by Internal Audit. The Corporate Governance Framework includes details of roles, responsibilities and reporting procedures for each material risk type. Controls in place to mitigate these risks are detailed in the risk register and summarised in the Corporate Governance Framework. A log is maintained to monitor risk events when they occur, recording the cause of the event, the impact and any remedial actions that have been taken. The CRO is responsible for escalating any issues to the RC.

The internal control system is subject to review by the internal audit function on a cyclical basis and the results are reviewed by the AC.

The board and management of the company has been revised and strengthened and it is intended to appoint a further INED. This increased overall team will allow for greater segregation of duties across the Company. In addition, the claims management is being revised and the majority of claims will be managed in house.

Compliance

Irwell's Compliance Function is responsible for ensuring compliance with the Company's legal and regulatory obligations. In particular, its responsibilities comprise:

- Identifying and evaluating compliance risks;
- The establishment and monitoring of procedures and controls over identified compliance risks;
- Ensuring that the Company and its intermediaries comply with all relevant rules, regulations and legislation, and
- Reporting to the Board on all compliance matters.

B. Systems of Governance (continued)

The CRO also performs the function of Compliance Officer and is responsible for both day-to-day compliance monitoring and regular reporting to the Board on compliance related matters. The compliance functions of the outsourced intermediaries are subject to periodic review by internal audit.

Previously, the CRO function was held by the CFO. Going forward, the CFO and CRO functions will be held by separate members of the team to allow for greater segregation of duties.

B.5 Internal audit function

Internal Audit must be objective, impartial and independent and not subject to influence from the Board or management. Accordingly, Irwell has appointed an external provider to perform the internal audit.

An annual internal audit plan is proposed by the external provider and approved by the AC. This plan is developed to ensure that, over the audit universe, sufficient evidence will be obtained to evaluate the effectiveness of the risk management and the control processes across the business.

Each internal audit plan encompasses the following areas:

- Suitability of the internal control system and its efficiency
- Failures/shortcomings of any internal control and potential improvements
- Compliance with internal strategies and policies
- Compliance with internal procedures and processes
- Actions taken to remedy past inadequacies
- Reported deficiencies, failings and irregularities
- Material functions/activities carried out by outsourced service providers

After each audit, appropriate reports are produced and submitted to the AC for review.

B.6 Actuarial function

The role of the Actuarial function is to provide the Board with an independent perspective on key insurance aspects of the Company's operations. This ensures that the Board is fully informed of matters that may impact the business.

Irwell does not employ an in-house actuarial resource and therefore utilises the services of its external actuary in filling the actuarial function.

The Chairman is responsible for the overseeing of the outsourced actuarial function, including agreeing the scope of work and reviewing and challenging the results.

The Actuarial function is responsible for the following areas:

- Coordinating the calculation of the technical provisions and reporting thereon;
- Assessing whether the methodologies and assumptions used in the calculation of the technical provisions are appropriate;
- Assessing data quality;
- Providing an underwriting policy opinion;

- Providing a reinsurance arrangements opinion, and
- Production of an Annual Actuarial Function Report.

The reporting on the technical provisions and the annual actuarial function report are subject to review and approval by the Board.

B.7 Outsourcing

The Irwell Board has identified the following to be key outsourced functions for the business, together with the relevant responsibilities:

- Underwriting and Claims Handling
- Internal Audit
- Actuarial
- Investment Management

From 1st April 2021, an experienced Claims Management team has been recruited into Irwell. It is planned that Irwell will begin writing new lines of business through additional intermediaries in the FY22 year, and it is expected that the claims management will be in-house. A Head of Operations joined the senior management team in January 2021 to ensure that the Board and committees are kept abreast of the claims management and provide the management team with up-to-date information and KPIs.

The Board considers that executive management has collectively the appropriate level of knowledge, skills and experience to oversee the provision of these services.

Irwell has a separate outsourcing policy which sets out the processes and procedures to be followed when deciding to outsource a particular activity. This includes details on risk management and the contractual arrangements.

The following were the material outsourced service providers during the reporting period:

Service provider	Service provided	Jurisdiction
Peninsula Business Services Limited	Underwriting and claims handling	UK
Croner Taxwise Limited	Underwriting and claims handling	UK
Croner Group Limited	Underwriting	UK
Bright HR Limited	Underwriting	UK
Mazars LLP	Internal audit services	UK
Barnett Waddingham LLP	Actuarial services	UK
Bank J Safra Sarasin (Gibraltar) Limited	Investment management services	Gibraltar

B.8 Any other information

The Company is satisfied that its system of governance, as outlined in B1-7 above and including the planned changes, is appropriate and proportionate to the nature, scale and complexity of the Company's business. This is something that is continuously reviewed. Both internal and external audits may provide recommendations for improvement which are considered and implemented if it is deemed appropriate to do so.

C. Risk Profile

Summary of risk profile

Irwell's business model has remained constant over the past few years, underwriting legal protection and accountants' tax fee protection risks through related party intermediaries. During FY21, the Company has made the decision to begin writing additional lines of business, and to widen the market that it operates in. In support of this strategy, the Board pursues a conservative investment policy. The following sections provide a summary of each of Irwell's material risks, including a description of the risk, the measures used to assess the risk, risk concentrations and the risk mitigation techniques used by Irwell to manage the risk.

C.1 Underwriting risk

Underwriting risk is assessed between the following risk categories:

- Premium risk
- Reserving risk
- Catastrophe risk
- Lapse risk
- Concentration risk

Appropriate underwriting and risk selection/pricing directly impacts on claims performance via claims frequency and loss ratios and in the same manner claims development and performance drives underwriting decisions. Appropriate and adequate reserving is a key factor in managing business performance. The Company does not use any special purpose vehicles. Underwriting risk is the most significant risk relating to Irwell's business and accounts.

Measures used to assess risk

Irwell underwrites legal expenses and liability insurance in the UK. As at 31st March 2021, the business was sourced solely via four authorised intermediaries who act under a delegated risk transfer agreement for underwriting and a claims handling contract for claims. Underwriting risks are assessed as follows:

- Levels of business written, the sources of that business and detailed claims information are recorded using management information received from the intermediaries on a monthly basis. This information is used to monitor the performance of the business and the level of reserves required.
- The adequacy of premium income to cover expected claims and expenses is the responsibility of the Board supported by recommendations from the Head of Underwriting and is achieved by following the Company's agreed pricing mechanism.
- The Company performs regular reviews of the intermediaries' underwriting records and claims data, including adherence to premium limits, underwriting guidelines and claims handling authorities. The outcomes of these reviews are submitted to the RC, together with overall MI on results and performance. This information is used in the management of underwriting risk.

C. Risk Profile (continued)

- The calculation of the technical provisions is performed by the external actuaries basing their methodology on market best practice, and reviewed and signed off by the AC. This review process includes consideration of the assumptions used, the suitability of the techniques used and the reasonableness of the results. Economic trends, developments in government policy and legal changes are all closely monitored.

Going forward, it is anticipated that miscellaneous financial risks will also be covered, and additional intermediaries will be contracted to distribute for Irwell. These new risks have been assessed and managed as follows:

- Key senior management personnel with experience in underwriting have been recruited to provide insight into the risks of each line of business being proposed, as well as to review potential new intermediaries and perform due diligence prior to signing any contract for services
- Claims management for three of the four existing intermediaries has been brought in house to ensure closer day-to-day management and review of the claims. Going forward, claims from new intermediaries will be managed in house as well, with assistance from outsourced specialists (loss adjusters, solicitors) where required.

Responsibility for assessing and monitoring insurance risk rests with the RC, which reports directly to the Board.

Premium risk

The key risk relating to business written is that intermediaries fail to follow agreed underwriting guidelines.
This risk is mitigated by:

- During the year to 31st March 2021, all intermediaries were related parties;
- All policy wordings are reviewed regularly and updated as necessary;
- Detailed delegated authority agreements are written for all new intermediaries writing business for Irwell, setting out the expectations and requirements;
- Any variation to the agreed rates must be approved by the Underwriting and Claims Director;
- Irwell has the ability to change premium and/or commission rates at short notice in the event of a deterioration in loss ratios;
- The Company performs regular reviews of the intermediaries underwriting records to ensure that they adhere to the terms of the delegated underwriting authority;
- The intermediaries are subject to regular audit from the internal auditor.
- An outsourced compliance auditor provides independent checks on the underwriting process
- Going forward, validation checks will be performed on the risk bordereaux to ensure risks are not being written outside of the agreed upon terms.

Reserving Risk

The Company is also exposed to the risk that the actual payment of claims, or the timing thereof, differs from expectations with the result that that its premium and claims reserves are not sufficient to meet its insurance liabilities. This is influenced by the both the frequency and the severity of claims. This risk is mitigated by:

- All business written up to 31st March 2021 was on a claims-made basis;
- Regular reviews of intermediaries are performed to ensure the quality of the claims data received and to ensure adherence to delegated claims handling authorities;
- External actuaries have been employed to perform the actuarial function for Irwell, including reviewing and assessing the Company's technical provisions.
- Experienced Claims team brought in house from 1st April 2021 to provide knowledge over incoming claims and ensure reserves are appropriate.

Catastrophe risk and reinsurance risk

Up to 31st March 2021, the business written by Irwell has consisted of employment business, covering awards and fees relating to employment tribunal cases and legal fees relating to breaches of health and safety legislation, and accountants' tax fee protection business, covering professional fees relating to HMRC enquiries. All business written is highly diversified and subject to relatively low policy limits. The directors have therefore previously taken the decision that the Company has limited exposure to accumulation of losses due to catastrophic events in relation to the existing business, and as such there has been no requirement for catastrophe reinsurance.

New lines of business included within the forecast have higher associated risk of catastrophe. Irwell has therefore reviewed the requirement for reinsurance and have factored this into the business plans.

Lapse risk

Up to 31st March 2021, Irwell's lapse risk has not been significant, as it was concerned primarily with short-tail risks. Going forward, lapse risk for the Company will be increased due to the diversification of the product portfolio. In order to manage this risk, regular reviews will be performed of the adequacy of reserves, and the need for reinsurance will be continually assessed, particularly in relation to the new lines of business.

Concentration Risk

Underwriting concentration risk is limited due to fact that the risks that the Company underwrites are diversified across a large portfolio of individually small insurance contracts. At the date of writing this report, the Company sources business through four intermediaries, who are members of the same group, and as a result of this the Company has a concentration of business around a single key business partner. This risk has been identified and recorded in the Company's risk register. This concentration risk is mitigated by detailed and ongoing monitoring of the intermediaries. A further mitigation of this risk is the financial strength of PBSG which is monitored by Irwell on a continuous basis.

Going forward, the concentration risk will be further reduced as the Company writes new lines of business as well as bringing new intermediaries on board, unrelated to the existing intermediary relationships. This will diversify the portfolio of Irwell's clients, both in type of business written, as well as the nature of the clients. The impact of this will be monitored on a regular basis.

Risk sensitivity relating to underwriting risk

At 31 March 2020, non-life underwriting risk accounted for 80% (2020: 83%) of Irwell's undiversified SCR.

See section C7 for information on stress and scenario testing on underwriting risk.

Material Change

Other than those already mentioned above, there were no material changes to note.

C.2 Market risk

Market risk is the risk of losses on the Company's investments due to fluctuations in market values. Market risk is subdivided into interest rate risk, equity risk, property risk, spread risk, concentration risk and currency risk. The Company's investments comprise cash, government bonds and investment grade corporate bonds, as well as exchange traded derivatives used for hedging purposes only. All investments are denominated in sterling. Due to the nature of the Company's investment portfolio, only interest rate risk, spread risk and concentration risk apply to Irwell.

Measures used to assess risk

Irwell has a cautious investment strategy with strict requirements laid down regarding investment type, grade and counterparty exposure limits. This is codified in an investment policy document which is reviewed and approved by the Board on at least an annual basis. Investment management is outsourced to JSS, who are required to operate within the bounds of the Company's investment policy. JSS provides the Company with a monthly investment report providing a monthly performance summary. This report is reviewed by executive management. In addition, JSS provides the Company with a quarterly detailed performance summary and narrative investment commentary. These reports are reviewed at Irwell's quarterly board meetings.

Market risk is also identified, assessed and monitored through the Company's risk register. The risk register is the responsibility of the RC and is reviewed and updated as necessary on at least a six-monthly basis.

Interest rate risk

Interest rate risk is the risk of investment losses due to changes in interest rates. Irwell has a short-dated investment portfolio with an average duration at 31 March 2021 of 2.47 (2020: 2.12) years. This feature of the portfolio mitigates the interest rate risk. In addition, derivatives may be used to manage the duration of the portfolio. At 31 March 2021, interest rate risk accounted for 0.4% (2020: 0.1%) of our undiversified SCR.

Spread risk

Spread risk is the risk that the value of investments will decline due to changes in credit spreads. Credit spreads are narrower for higher rated securities. The risk is therefore mitigated by Irwell specifying in its investment policy the minimum ratings that must apply to different categories of securities both in terms of individual issuers and in terms of the portfolio as a whole. At 31 March 2021, spread risk accounted for 11% (2020: 8%) of the Company's undiversified SCR.

Concentration risk

Concentration risk is the risk of investment losses that may occur due to having a large portion of the investment portfolio with the same counterparty. This risk is mitigated by Irwell ensuring appropriate diversification, specifying in its investment policy maximum limits for any one issuer. As a result, concentration risk relating to Irwell's investment portfolio, managed by JSS, is minimal.

Concentration risk relating to cash at bank is considered under credit risk in C3 below.

Prudent person principle

Irwell's investment strategy is focused on capital preservation and ensuring sufficient liquidity to meet claims and expenses on an ongoing basis. As a result the Company has a low risk, well diversified portfolio of investment assets which is fully compliant with the prudent person principle. In particular:

- The average short duration of the investments matches the short-tail nature of the insurance business written by the Company. This ensures that the assets held to cover the technical provisions are invested in a manner appropriate to the nature and duration of the insurance liabilities and in the best interest of all policyholders.
- Investment management is outsourced to a leading asset management firm.
- The asset managers operate under a strict set of investment guidelines specifying limits as to duration, security and diversification.
- The investment guidelines also ensure that holdings are only acquired in investments where it is confirmed that data is available properly to identify, measure, monitor, manage, control and report on those assets and perform the necessary solvency capital calculations in accordance with the Standard Formula.
- Exchange traded derivatives are approved for hedging purposes only, where such instruments can be shown to improve the quality, profitability, liquidity or security of the portfolio.

Risk sensitivity relating to market risk

Irwell's investment strategy described above results in total market risk comprising approximately 12% (2020: 8%) of the Company's undiversified SCR at 31 March 2021.

See section C7 for information on stress and scenario testing on market risk.

Material change

Other than those mentioned above, the business does not consider there to be any material changes to note.

C.3 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Irwell is exposed to credit risk in relation to overdue premium debtors (type 2 counterparties) and in respect of deposits with banks (type 1 counterparties). Investment credit risk is dealt with in C2 (Market Risk) above. As reinsurance has not been required previously, credit risk relating to this was not applicable. Going forward, any reinsurance policies entered into will be with A-rated insurers as a minimum to manage this risk.

Measures used to assess risk

Credit risks are identified, assessed and monitored through the Company's risk register. These risks are discussed by the RC on at least a six-monthly basis and their potential impact is assessed. In addition, the intermediaries are subject to periodic internal audit reviews.

Amounts due from intermediaries

All of the premium debtors on the Irwell balance sheet will ultimately be collected by four intermediaries, all of which are connected parties, being subsidiaries of PBSG. This increases the counterparty credit risk because of the concentration on one group of companies. This risk is mitigated as follows:

- Irwell has in place credit terms with its intermediaries and their adherence to those terms is carefully monitored.
- Review of financial information of the intermediaries, including financial statements and 3 year business plans.
- The majority of premiums are paid in instalments and therefore, at any balance sheet date, only one month's premiums is in the hands of the intermediaries.
- A further mitigation of this risk is the financial strength of PBSG which is monitored by Irwell on a continuous basis.

There is a short credit period before premiums received by the intermediaries are payable to Irwell, as agreed in the terms with the intermediaries. Adherence to these credit terms is carefully monitored and controlled. Therefore, at any valuation date, a very small amount, if any, of the premium debtors are past due and consequently are included in technical provisions for solvency purposes and no capital charge is applied. At 31 March 2021, the credit risk relating to amounts due from intermediaries amounted to nil (2020: nil).

Going forward, it is likely that the credit risk may increase, as Irwell looks to bring on new intermediary relationships. Credit terms with all intermediaries will be monitored closely going forward, and due diligence will be performed on all proposed intermediaries before new relationships are entered into.

Deposits with banks

The Irwell investment policy requires that cash deposits are held at banks with a minimum A rating.

C. Risk Profile (continued)

Risk sensitivity to credit risk

At 31 March 2021, credit risk relating to deposits with banks (type 1 counterparty risk) accounted for 3% of Irwell's undiversified SCR (2020: 3%).

Material change

Although changes going forward are likely to impact on the credit risk as mentioned above, there have been no material changes during the year ended 31st March 2021.

C.4 Liquidity risk

Liquidity risk relates to the risk that there may be insufficient financial resources to meet the Company's financial obligations as and when they fall due.

Measures used to assess risk

Liquidity risk is assessed and monitored on a continuous basis so as to ensure that funds are maintained at a level sufficient for ongoing requirements. Investments and cash are reviewed by the Board at its quarterly meetings.

Liquidity risk is also identified, assessed and monitored through the Company's risk register.

Liquidity risk exposure

The ongoing cash-flow requirements of Irwell are currently more than covered by the premium receipts each month from intermediaries. The main cash movement on a month-to-month basis is through one of the big four UK banks. Bank deposits are also made on Irwell's behalf by JSS in accordance with the Company's investment policy. Irwell's investment portfolio is managed in such a way as to ensure that liquid assets are always readily available to meet liabilities as they fall due.

Expected profit in future premiums

The expected profit included in future premiums is £3,351k (2020: £3,183k), calculated in accordance with Article 260(2).

Prudent person principle

The Company's investment policy emphasises the liquidity requirements of the business and, in particular, the nature and timing of its insurance liabilities.

Risk sensitivity relating to liquidity risk

Liquidity risk is not a material risk for Irwell. Therefore, no stress testing has been performed.

Material change

The decision by the Company to begin writing new lines of business and in new markets may increase the liquidity risk going forward, as additional reserves will be required to cover the new risks being written. In order to ensure that the Company has sufficient funds, stress test analysis work has been performed at the year end, both in relation to the existing business as well as the forecasts. Irwell has always carried funds well in excess of the SCR, and as at 31st March 2021 the capital ratio was 258% (2020: 194%).

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The key operational risks are:

- Outsourcing
- People – dependence on executive directors
- Systems – reliance on intermediaries IT systems
- Systems – implementation of new systems, risk of failure of controls
- Regulatory
- Reputation

Measures used to assess risk

Operational risk is assessed and monitored through the Company's risk register. This sets out the key risks to which the Company is exposed and the controls in place to mitigate each risk.

Outsourcing

Up to 31st March 2021, the critical functions of underwriting and claims handling have been delegated to the Company's four intermediaries. From 1st April 2021, an experienced Claims Management team was brought in house to begin taking over the claims. This reduces the outsourcing risk, and provides the executive team with greater oversight and control of the claims management.

Irwell remains ultimately responsible for the outsourced activities. This responsibility is taken at board level and the associated risk of non-compliance or poor compliance with Irwell's requirements is managed as follows:

- Irwell has a written outsourcing policy, agreed at board level;
- Irwell has written delegated underwriting and claims handling agreements in place with its intermediaries;
- Irwell proactively manages performance of the intermediaries in respect of the delegated authorities; and
- Each intermediary is regulated by the FCA in its own right and Irwell monitors those companies' interactions with the regulator.

People – dependence on executive directors

The Company has previously been reliant on three executive directors for the management of the Company and its efficient functioning. During the year, a senior management team has been recruited in order to support the executive directors as Irwell takes on new risks and markets, as well as to help manage the new claims team and provide expertise in underwriting.

Having the additional team members supporting the directors reduces the risk of dependence on any one individual, but in consequence there is additional operational risk that people may lack the training or skills to fulfil their roles. In order to combat this, Irwell has ensured that all senior managers are competent in their roles and sufficient training is provided on an ongoing basis.

Systems – reliance on intermediaries' IT systems

The company has previously been reliant on PBSG's IT systems. However, a bespoke contract system has now been purchased and will be fully functional in 2021.

The new IT system is also linked to both an accounting system as well as a bespoke claims management system, thus greatly improving functionality and reporting capability.

Regulatory

This relates to the risk of failing to comply with current regulatory requirements or to identify, understand and apply changes to law or regulations.

This risk is mitigated by the Company having a strong system of governance, including an effective risk management system and effective internal controls. In addition, as mentioned above, Irwell proactively manages the activities of the outsourced underwriting and claims handling functions to ensure regulatory compliance.

Reputation

This is the risk that a regulatory breach or poor customer service could give the Company a poor reputation. Mitigation of regulatory risk is dealt with in the previous paragraph. In light of the outsourced functionality for underwriting and claims, Irwell has a heavy dependence on its intermediaries for maintaining the business's reputation with policyholders. Proactive monitoring of the performance of Irwell's intermediaries includes the regular review of reputational risk, including the monitoring of customer service in line with the FCA's principles for treating customers fairly.

Bringing claims management in house will increase the management team's control and review of the reputation. Additionally, complaints referred to Irwell are investigated promptly and brought to an appropriate conclusion. Irwell have historically had a very low level of complaints.

Risk sensitivity relating to operational risk

Operational risk represents 5% of the Company's undiversified SCR at 31 March 2021 (2020: 6%).

Material change

Other than those changes mentioned above, Irwell are not aware of any material changes.

C.6 Other material risks

All material risks are dealt with in C1-5 above.

C.7 Any other information

Stress and scenario testing

The Company performs an annual stress and scenario testing exercise as part of its ORSA process, testing material risks to which it is exposed compared to the SCR, as well as performing reverse stress tests. Underwriting risk and market risk together account for 92% (2020: 91%) of the Company's risk profile and therefore these are the risk areas where the Company's stress testing is concentrated.

Underwriting risk

A range of stress tests has been performed by selecting increases in frequency and severity assumptions and selecting more pessimistic development patterns from the chain ladder analysis performed. The standard formula gives a higher capital charge for non-life underwriting risk than is indicated by Irwell's own analysis, mainly because the standard formula does not fully take account of some of the specific characteristics of the business. For instance, a proportion of Irwell's business is classed as General Liability, however the factors applied to this business in the standard formula do not adequately take into account the low policy limits in place, nor the industry's cap on awards in this area.

Going forward, the underwriting risk is likely to increase due to the diversification of the product portfolio and higher liability limits on new risks being written. Stress tests will be performed on the forecasts to ensure the Company has sufficient reserves to manage the risks, and reinsurance will be purchased where necessary.

Market risk

Stress testing was performed in respect of interest rate risk and spread risk. The interest rate test looked at adverse movements in the derivative in isolation and in the portfolio as a whole. The spread risk test assumed institutional failure in a sample of corporate bonds. These tests resulted in only a small impact on the Company's capital position, which is consistent with the fact that Irwell's investment portfolio is low risk in terms of asset type, duration and diversification.

Future developments

As the product range and markets that Irwell operates in are expanded, the risks to the Company will be reviewed on a regular basis.

D. Valuation for Solvency Purposes

D1. Assets

D1.1 Assets at 31 March 2021:

	Financial statements valuation	Reanalysis for solvency	Solvency valuation adjustments	Solvency valuation
	£'000	£'000	£'000	£'000
Government and corporate bonds	37,104	396		37,500
Futures contracts	766			766
Amounts due from intermediaries	10,664	(10,635)		29
Deferred tax asset	-		192	192
Cash at bank	8,054			8,054
Deferred acquisition costs	2,540		(2,540)	-
Accrued interest	396	(396)		-
Prepayments	39			39
Total assets	59,563	(10,635)	(2,348)	46,580

D1.1a Assets at 31 March 2020:

	Financial statements valuation	Reanalysis for solvency	Solvency valuation adjustments	Solvency valuation
	£'000	£'000	£'000	£'000
Government and corporate bonds	30,514	299		30,813
Amounts due from intermediaries	11,638	(11,638)		-
Deferred tax asset	-		17	17
Cash at bank	8,080	1		8,081
Deferred acquisition costs	2,687		(2,687)	-
Accrued interest	300	(300)		-
Prepayments	38			38
Total assets	53,257	(11,638)	(2,670)	38,949

D1.2 Solvency valuation

- Government and corporate bonds are valued at fair value, being bid price at the valuation date plus any accrued interest. They are all level 1 investments, valued by reference to quoted prices on an active market.
- The Company uses futures contracts for the purpose of managing its portfolio duration. These contracts are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the profit and loss account. At the balance sheet date, Irwell held £766k (2020: £nil) in cash futures.
- Amounts due from intermediaries are all due within one year. They are therefore valued at the undiscounted amount of the amount expected to be received. For solvency purposes, they are netted off technical provisions, with the exception of amounts more than 3 months overdue, which are retained on the Solvency II balance sheet.
- The deferred tax asset (DTA) relates to timing differences between the tax values of assets and liabilities and their values calculated on in accordance with Solvency II principles. The DTA is valued on the basis of the amount expected to be recovered against future taxable profits.
- Cash at bank is valued at its carrying value at the valuation date plus any accrued interest.

D1.3 Differences between solvency valuation and valuation in financial statements

The valuation of assets for solvency purposes is consistent with the valuation in the financial statements, with the following exceptions:

- In the financial statements, accrued interest is shown within 'prepayments and accrued income', whereas in the Solvency II balance sheet it included within 'Government and corporate bonds' and 'Cash at bank' as applicable.
- As stated in D1.2 above, amounts due from intermediaries are netted off technical provisions in the Solvency II balance sheet, with the exception of amounts more than 3 months overdue, which are retained on the Solvency II balance sheet.
- Deferred acquisition costs (DAC) comprise acquisition costs that are attributable to premiums unearned at 31 March 2021. DAC is not recognised as an asset for solvency purposes.
- The DTA comprises a solvency adjustment and therefore is not included in the financial statements.

D.2 Technical Provisions

D2.1 Technical provisions at 31 March 2021:

Line of business	Claims provision	Premium provision	Risk margin	Total technical provisions
	£'000	£'000	£'000	£'000
Third party liability	3,251	(928)	280	2,603
Legal expenses	14,713	(2,423)	2,205	14,495
Total	**17,964**	**(3,351)**	**2,485**	**17,098**

D2.1a Technical provisions at 31 March 2020:

Line of business	Claims provision	Premium provision	Risk margin	Total technical provisions
	£'000	£'000	£'000	£'000
Third party liability	3,099	(848)	263	2,514
Legal expenses	14,145	(1,958)	1,989	14,176
Total	**17,244**	**(2,806)**	**2,252**	**16,690**

D2.2 Solvency valuation

Technical provisions comprise claims provisions, premium provisions and a risk margin. For PBS, CG and BHR, the legal expenses and liability components of the claims have been considered separately. All CTW business is legal expenses business.

Claims provision losses for PBS for all reporting years prior to the most recent year are established using the MLO case estimates, since no further development for these years is indicated by Irwell's chain ladder projections. Claims provisions for the most recent year for PBS have been estimated using an average cost per claim (ACPC) methodology. This is regarded as an appropriate method for open claims at the end of the first reporting year which are relatively new and should contain a representative mix of claims.

The CG business has only been written since 2016. The data available is therefore immature and chain ladder projections are not regarded as being reliable. Claims provisions for CG for all reporting years have therefore been estimated using an average cost per claim methodology.

The BHR book is also immature, and the number of outstanding claims at 31st March 2021 is small. The claims reserve is based on MLO estimates validated by an ACPC review.

Claims provision losses for CTW for all reporting years up to 2015/16 have been set on the basis of case estimates, since incurred chain ladder projections indicate no further development. For the 2016/17 and later years, the claims reserve has been set using a combination of chain ladder projections and a method based on ACPC.

Premium provision losses are calculated using loss ratios (for CTW and CG), and frequency and average cost per claim (for PBS) assumptions, that have been derived from analysis of recent claims experience. In addition, the Company has some bound but not incepted ('BBNI') business that is included in the premium provision based on the same assumptions.

Both the claim and premium provisions are required to include all future expenses that will be incurred in servicing all existing business including any expected profit commission that will be generated by business that has not yet expired. All future expenses have been derived from the forecasts that are produced as part of the Company's business planning process. From 1st April 2021, a claims handling team has been brought into Irwell, and the claims handling authority removed from some intermediaries. The future cost of the claims handling team dealing with the existing outstanding claims has therefore been included in the provisions.

Both claim and premium provisions include an estimate for events not in data (ENID). The methodology used to set the ENID loadings is based on a commonly used "truncation distribution" method.

Amounts due to and from intermediaries, comprising premiums receivable in respect of existing policies (with the exception of amounts more than 3 months overdue), the related commission creditors and creditors for claims payable, are included within technical provisions for solvency purposes. There are no valuation differences compared with the amounts for these items in the financial statements.

The technical provisions are presented on a discounted basis. Loss cash flows are projected using payment patterns from the reserving analysis. Cash flows are discounted at the PRA's risk free spot rate.

The risk margin represents the amount that a third party would require in addition to the best estimates to assume the Company's insurance liabilities, calculated on a cost of capital basis. The risk margin is estimated by assuming that future solvency capital requirements ('SCR') will be proportional to best estimate discounted technical provisions.

D2.3 Level of uncertainty associated with the value of technical provisions

The key areas of uncertainty relating to technical provisions are as follows:

- When projecting future claims, it is necessary to make some assumptions regarding the future claims development. There is always inherent uncertainty in estimating future liabilities since events and circumstances will not occur exactly as predicted.
- A significant amount of judgement is applied in establishing claims provisions, making their estimation inherently uncertain. Judgement is applied both in establishing case estimates and in interpreting historical data in the process of projecting ultimate claims. However, the level of uncertainty is moderated due to the fact that all business is written on a claims made basis. This means that no pure IBNR is required although it is necessary to consider the need for an IBNER.
- For employment business, there is uncertainty as to the number of claims that will proceed to tribunal. For all business, there is inherent uncertainty as to the rate of claims development. A slower development pattern than that anticipated will result in adverse development.

D. Valuation for Solvency Purposes (continued)

- As the Company has only been writing business introduced by CG since 2016, and by BHR since 2019, the data available is limited, which increases the uncertainty attached to the technical provisions for the business introduced by these intermediaries.
- Irwell has low policy limits in place. PBS, BHR and CG claims severity is affected by the cap in place on the amount that can be awarded at an employment tribunal. CTW claims severity is influenced by HMRC's historical practice of using one complex case as a test case with other similar claims following the ruling in that case, making it unlikely that a large number of claims would incur high tribunal fees. These considerations mean that the Company's catastrophe exposure is low.
- The determination of the premium provision is inherently uncertain in that is based on actuarial analysis of historical data. In addition, since the premium provision relates to future cash flows relating to unearned exposures, there is greater uncertainty attached to unearned exposures.
- ENID are by definition uncertain in that they relate to events not represented in the historical data. They are not significant in the context of the Company's total technical provisions.
- The risk margin is uncertain in that it is based on forecasts of future SCRs.
- COVID-19 has added to the uncertainty of the technical provisions as it has impacted on the claims logged as well as the payment patterns. The impact of this will continue to be monitored going forward.

D2.4 Differences between solvency valuation and valuation in financial statements

The technical provisions per the financial statements (UK GAAP) and per the solvency valuation are reconciled as follows:

at 31 March 2021	**Third party liability**	**Legal expenses**	**Total**
	£'000	**£'000**	**£'000**
Claims provision			
UK GAAP claims provisions	3,256	12,951	16,207
Removal of prudence margin	(170)	45	(125)
Reallocation of claims creditors	54	723	777
Removal of claims handling reserve	(87)	(69)	(156)
ENID	88	477	565
Expenses adjustment	120	757	877
Discounting	(10)	(171)	(181)
Claims provision per solvency valuation	**3,251**	**14,713**	**17,964**
Premium provision			
UK GAAP UPR	2,010	8,062	10,072
Removal of DAC	(114)	(2,427)	(2,541)
Removal of profit on UPR	(739)	(1,854)	(2,593)
Bound but not incepted business	(3)	(508)	(511)
Reallocation of premium debtors	(2,430)	(8,204)	(10,634)
Reallocation of commission creditors	137	2,071	2,208
ENID	36	125	161
Expenses adjustment	46	199	245
Future profit commission	138	181	319
Discounting	(9)	(68)	(77)
Premium provision per solvency valuation	**(928)**	**(2,423)**	**(3,351)**
Risk margin	**280**	**2,205**	**2,485**
Total technical provisions per solvency valuation	**2,603**	**14,495**	**17,098**
at 31 March 2020	**Third party liability**	**Legal expenses**	**Total**
	£'000	**£'000**	**£'000**
Claims provision			
UK GAAP claims provisions	2,761	12,537	15,298
Removal of prudence margin	(169)	(422)	(591)
Reallocation of claims creditors	38	911	949
Reallocation of profit commission creditor	317	278	595
ENID	74	459	533
Expenses adjustment	99	565	664
Discounting	(21)	(183)	(204)
Claims provision per solvency valuation	**3,099**	**14,145**	**17,244**
Premium provision			
UK GAAP UPR	2,831	9,003	11,834
Removal of DAC	(220)	(2,467)	(2,687)
Removal of profit on UPR	(1,419)	(2,067)	(3,486)
Bound but not incepted business	(4)	(152)	(156)

D. Valuation for Solvency Purposes (continued)

Reallocation of premium debtors	(2,620)	(9,018)	(11,638)
Reallocation of commission creditors	160	2,092	2,252
ENID	35	139	174
Expenses adjustment	32	185	217
Future profit commission	371	393	764
Discounting	(14)	(66)	(80)
Premium provision per solvency valuation	**(848)**	**(1,958)**	**(2,806)**
Risk margin	**263**	**1,989**	**2,252**
Total technical provisions per solvency valuation	**2,514**	**14,176**	**16,690**

The key adjustments required to affect the transition from the UK GAAP technical provisions to the technical provisions for solvency purposes are as follows:

- The UK GAAP technical provisions include a margin for prudence. The claims provision for solvency represents a best estimate and therefore this margin is removed.
- Under UK GAAP, the unearned premium provision comprises the proportion of the premiums written in a year relating to the period of risk from 1st April to the subsequent dates of expiry of policies. In contrast, the premium provision for solvency purposes is calculated on a best estimate basis and therefore takes account of expected future profits.
- For solvency purposes, insurance debtors and creditors are netted off technical provisions.
- The solvency technical provisions include loadings for ENID and for future expenses in relation to exiting insurance business.
- Under UK GAAP, the DAC is shown as an asset, whereas for Solvency purposes, they are netted off the UPR within the premium provision.
- The solvency technical provisions include values for business bound but not incepted at the balance sheet date.
- The UK GAAP technical provisions are not discounted whereas discounting is applied to the solvency technical provisions.
- The solvency technical provisions include a risk margin whereas no allowance is made for a risk margin when establishing the UK GAAP technical provisions.

D2.5 Other matters

The Company has not applied for approval for, and therefore has not applied the matching adjustment, the volatility adjustment, transitional risk-free interest term structure or the transitional deduction with respect to the calculation of Solvency II technical provisions.

The Company does not currently purchase reinsurance and there are therefore no reinsurance recoverables relating to its technical provisions.

There have been no material changes to the assumptions made in calculating the technical provisions compared to the previous period.

D.3 Other liabilities

D3.1 Other liabilities at 31 March 2021:

	Financial statements valuation	Reanalysis for solvency purposes	Solvency valuation adjustments	Solvency valuation
	£'000	£'000	£'000	£'000
Insurance creditors	2,994	(2,985)	-	9
Other creditors	2,254	-	-	2,254
Accruals	60	-	-	60
Total	**5,308**	(2,985)		**2,323**

D3.1a Other liabilities at 31 March 2020:

	Financial statements valuation	Reanalysis for solvency purposes	Solvency valuation adjustments	Solvency valuation
	£'000	£'000	£'000	£'000
Insurance creditors	3,796	(3,796)	-	-
Other creditors	713	-	-	713
Accruals	55	-	-	55
Total	**4,564**	(3,796)		**768**

D3.2 Solvency valuation

Insurance creditors comprise claims agreed for payment and acquisition costs and profit commission payable to intermediaries. All amounts are due within one year and are therefore valued at the undiscounted amount of the amount due to be paid. For solvency purposes, claim, acquisition cost and profit commission creditors are netted off technical provisions, with the exception of commissions relating to premium receivables more than 3 months overdue, which are retained on the Solvency II balance sheet.

Other creditors and accruals, including corporation tax payable, are all expected to be settled within one year and are therefore valued at the undiscounted amount of the amount expected to be paid. At 31 March 2021, other creditors include a liability of £766k in respect of a derivative financial liability, which was valued at fair value through profit and loss, and a futures contract for the same value was included in assets above. Comparative balance as at March 2020 for both the asset and liability was £nil.

D3.3 Differences between solvency valuation and valuation in financial statements

As stated in D2.2 above, claim, acquisition cost and profit commission creditors are netted off technical provisions in the Solvency II balance sheet.

The Solvency II net assets position is summarised below.

	Financial Statements	Sol ii Adjustments	Solvency ii Valuation
Assets (see D1.1)			
Investments	37,870	396	38,266
Cash	8,054	-	8,054
Debtors	10,664	(10,635)	29
Prepayments & Accrued Income	2,975	(2,744)	231
Total Assets	**59,563**	**(12,983)**	**46,580**
Liabilities (see D2.4)			
Claims provision	16,207	1,757	17,964
Premium provision	10,072	(13,423)	(3,351)
Risk margin		2,485	2,485
Technical provisions	**26,279**	**(9,181)**	**17,098**
Other liabilities (see D3.1)	5,308	(2,985)	2,323
Total Liabilities	**31,587**	**(12,166)**	**19,421**
Total Net Assets	**27,976**	**(817)**	**27,159**

D.4 Alternative methods for valuation

Not applicable.

D.5 Any other information

There is no other material information to disclose regarding the valuation of assets and liabilities for solvency purposes.

E. Capital Management

E1 Own Funds

E1.1 Objectives, policies and processes for managing own funds

In order to ensure continuous compliance with the regulatory capital and solvency position, the objective of the Company is to maintain own funds so as to hold a buffer over the SCR of at least 50%. Irwell uses the standard formula to calculate its SCR. The board formally reviews the ratio of own funds over the SCR at each board meeting.
The Company operates on a three-year business planning timeframe. As part of the normal business planning process, a three-year forecast is produced at the commencement of each financial year. The forecast includes a projection of the of the solvency margin over that period. The business plan also forms a key input to the Company's ORSA.

E1.2 Own funds by tier

Own fund item	**Tier**	**2021**	**2021**	**2020**	**2020**
		£'000	**%**	**£'000**	**%**
Ordinary share capital	1	4,000	14.7	4,000	18.6
Reconciliation reserve	1	22,967	84.6	17,474	81.3
Sub-total Tier 1		**26,967**	**99.3**	**21,474**	**99.9**
Deferred tax asset	3	192	0.7	17	0.1
Total own funds		**27,159**	**100**	**21,491**	**100**

The reconciliation reserve comprises retained earnings together with solvency valuation adjustments.

The total own funds shown in the above table is eligible to cover the SCR.

No dividend has been declared for the year ended 31 March 2021 (2020: £3m).

Only tier 1 items totalling £26,968k (2020: £21,474k) are available to cover the MCR.

There are no restrictions regarding the availability of own funds.

E. Capital Management (continued)

E1.3 Reconciliation of equity in the financial statements and the excess of assets over liabilities as calculated for solvency purposes

There is no difference between the amount of ordinary share capital reported in the financial statements and the amount included in own funds.

The differences between equity in the financial statements and the excess of assets over liabilities as calculated for solvency purposes relate to adjustments made in order to value assets and liabilities at their solvency valuation. These adjustments are fully described in section D above and summarised in the table below:

	2021	2020
	£'000	£'000
Shareholders' equity in the UK GAAP financial statements	27,976	21,561
Adjust technical provisions to best estimate	1,218	1,881
Risk margin	(2,485)	(2,252)
Discounting of technical provisions	258	284
Deferred tax asset	192	17
Total own funds	**27,159**	**21,491**

E.1.4 other disclosures

No basic own funds are subject to the transitional arrangements referred to in Articles 308b (9) and 308b (10) of Directive 2009/138/EC.

There are no ancillary own funds and no deductions made from the own funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E2.1 SCR

At 31 March 2021, the SCR was £10,547k (2020: £11,072k).
The SCR was determined using the standard formula, and is summarised as follows:

	2021	2020
	£'000	£'000
Market risk	1,598	955
Counterparty default risk	432	357
Non-life underwriting risk	10,566	10,177
Diversification	(1,294)	(846)
Total Basic SCR	**11,302**	**10,643**
Operational risk	752	745
Deferred tax adjustment	(1,507)	(316)
Total SCR	**10,547**	**11,072**

The final amount of the SCR remains subject to supervisory assessment.

E2.2 MCR

At 31 March 2021, the MCR was £3,387k (2020: £3,579k).
Inputs used by the Company to calculate the MCR were as follows:

Line of business	Technical provisions		Written premiums in last 12 months	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Third-party liability	2,324	2,251	3,411	4,289
Legal expenses	12,289	12,187	19,876	21,335
Total	**14,613**	**14,438**	**23,287**	**25,624**

The MCR calculation is based on the technical provisions and the expected level of retained premiums over the previous 12 months. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively. The MCR for Irwell is subject to an absolute floor of £3,332k as at 31 March 2021 (2020: £3,187k).

E2.3 Analysis of change

The Company's solvency capital requirement has reduced year on year from £11,072k in FY20 to £10,547k in FY21. This is mainly due to a significant deferred tax adjustment as at the March 2021 year end.

E2.4 Other

No simplifications are used to calculate the SCR.

No undertaking-specific parameters are used to calculate the SCR pursuant to Article 104(7) of Directive 2009/138/EC.

E.3 Use of the duration-based equity risk sub-module to calculate the SCR

The Company does not hold equities and therefore the equity risk sub-module is not applicable.

E.4 Differences between the standard formula and any internal model used

The Company does not use any internal model

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company has complied throughout the year with the minimum capital requirement and the solvency capital requirement.

E.6 Any other information

At 31 March 2021, the Company's solvency surplus was £16,612k (2020: £10,419k), giving a capital ratio of 258% (2020: 194%).

The movement in the surplus is analysed as follows:

	2021	**2020**
	£'000	**£'000**
Solvency surplus at 1 April	10,419	10,104
Generated from operating activities	5,668	1,549
Dividend paid	-	(3,000)
Decrease/(increase) in SCR	525	1,766
Solvency surplus at 31 March	**16,612**	**10,419**

Our solvency position remains strong and would remain above our target ratio of 150% under any applicable COVID-19 related stresses.

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S.02.01.02

Balance sheet

		Solvency II value
Assets		**C0010**
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	192
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	40,882
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	37,501
Government Bonds	**R0140**	2,078
Corporate Bonds	**R0150**	34,895
Structured notes	**R0160**	
Collateralised securities	**R0170**	528
Collective Investments Undertakings	**R0180**	
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	2,616
Other investments	**R0210**	766
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	**R0280**	
Non-life excluding health	**R0290**	
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	29
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	5,438
Any other assets, not elsewhere shown	**R0420**	39
Total assets	**R0500**	46,580

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S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	17,098
Technical provisions – non-life (excluding health)	R0520	17,098
TP calculated as a whole	R0530	
Best Estimate	R0540	14,613
Risk margin	R0550	2,485
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	
TP calculated as a whole	R0660	
Best Estimate	R0670	
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	
TP calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	766
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	9
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	1,488
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	60
Total liabilities	R0900	19,421
Excess of assets over liabilities	R1000	27,159

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S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**		Total
		General liability insurance	Legal expenses insurance	
		C0080	**C0100**	**C0200**
Premiums written				
Gross - Direct Business	**R0110**	3,411	19,876	23,287
Gross - Proportional reinsurance accepted	**R0120**			
Gross - Non-proportional reinsurance accepted	**R0130**			
Reinsurers' share	**R0140**			
Net	**R0200**	3,411	19,876	23,287
Premiums earned				
Gross - Direct Business	**R0210**	4,232	20,817	25,049
Gross - Proportional reinsurance accepted	**R0220**			
Gross - Non-proportional reinsurance accepted	**R0230**			
Reinsurers' share	**R0240**			
Net	**R0300**	4,232	20,817	25,049
Claims incurred				
Gross - Direct Business	**R0310**	1,172	7,083	8,255
Gross - Proportional reinsurance accepted	**R0320**			
Gross - Non-proportional reinsurance accepted	**R0330**			
Reinsurers' share	**R0340**			
Net	**R0400**	1,172	7,083	8,255
Changes in other technical provisions				-
Gross - Direct Business	**R0410**			
Gross - Proportional reinsurance accepted	**R0420**			
Gross - Non- proportional reinsurance accepted	**R0430**			
Reinsurers' share	**R0440**			
Net	**R0500**			
Expenses incurred	**R0550**	1,200	9,128	10,328
Other expenses	**R1200**			
Total expenses	**R1300**			10,328

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S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance		Total Non-Life obligation
		General liability insurance	Legal expenses insurance	
		C0090	C0110	C0180
Technical provisions calculated as a whole	R0010			
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050			
Technical provisions calculated as a sum of BE and RM				
Best estimate				
Premium provisions				
Gross	R0060	(927)	(2,423)	(3,351)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140			
Net Best Estimate of Premium Provisions	R0150	(927)	(2,423)	(3,351)
Claims provisions				
Gross	R0160	3,251	14,713	17,964
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240			
Net Best Estimate of Claims Provisions	R0250	3,251	14,713	17,964
Total Best estimate - gross	R0260	2,324	12,289	14,613
Total Best estimate - net	R0270	2,324	12,289	14,613
Risk margin	R0280	280	2,205	2,485
Amount of the transitional on Technical Provisions				
Technical Provisions calculated as a whole	R0290			
Best estimate	R0300			
Risk margin	R0310			
Technical provisions - total				
Technical provisions - total	R0320	2,604	14,494	17,098
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330			
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	2,604	14,494	17,098

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S.19.01.21

Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	**Z0020**	Accident year [AY]

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

		Development year										
	Year		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**
Prior	**R0100**											5
2011	**R0160**	3,293	5,124	2,024	251	-62	613	44	99	2	26	
2012	**R0170**	4,201	4,844	1,136	649	256	237	-59	1	5		
2013	**R0180**	3,734	5,137	1,940	361	80	143	20	12			
2014	**R0190**	3,456	3,744	704	556	42	71	92				
2015	**R0200**	3,526	3,599	1,100	263	147	81					
2016	**R0210**	3,222	4,273	967	457	430						
2017	**R0220**	4,512	5,993	1,434	555							
2018	**R0230**	5,077	4,369	1,091								
2019	**R0240**	4,130	3,295									
2020	**R0250**	1,909										

		In Current year	**Sum of years (cumulative)**
		C0170	**C0180**
	R0100	5	5
	R0160	26	11,414
	R0170	5	11,270
	R0180	12	11,427
	R0190	92	8,665
	R0200	81	8,716
	R0210	430	9,349
	R0220	555	12,494
	R0230	1,091	10,538
	R0240	3,295	7,425
	R0250	1,909	1,909
Total	**R0260**	7,502	93,212

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Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	**Z0020**	Accident year [AY]

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year										
	Year		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**
		C0200	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**
Prior	**R0100**											34
2011	**R0160**						623	254	167	118	22	
2012	**R0170**					753	326	226	200	209		
2013	**R0180**				1,747	788	375	273	189			
2014	**R0190**			1,703	674	510	367	216				
2015	**R0200**		3,318	1,410	736	413	352					
2016	**R0210**	3,875	3,430	2,372	1,814	1,616						
2017	**R0220**	7,374	4,882	2,913	2,376							
2018	**R0230**	5,883	5,426	3,570								
2019	**R0240**	5,868	6,535									
2020	**R0250**	3,026										

		Year end (discounted data)
		C0360
	R0100	33
	R0160	22
	R0170	209
	R0180	188
	R0190	215
	R0200	348
	R0210	1,604
	R0220	2,356
	R0230	3,541
	R0240	6,491
	R0250	2,955
Total	**R0260**	17,964

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Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	4,000	4,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	22,967	22,967			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	192				192
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
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						
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	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	27,159	26,967			192
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					

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Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Other ancillary own funds	**R0390**					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	27,159	26,967			192
Total available own funds to meet the MCR	**R0510**	26,967	26,967			
Total eligible own funds to meet the SCR	**R0540**	27,159	26,967			192
Total eligible own funds to meet the MCR	**R0550**	26,967	26,967			
SCR	**R0580**	10,547				
MCR	**R0600**	3,387				
Ratio of Eligible own funds to SCR	**R0620**	2.5751				
Ratio of Eligible own funds to MCR	**R0640**	7.9627				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	27,159	
Own shares (held directly and indirectly)	**R0710**		
Foreseeable dividends, distributions and charges	**R0720**		
Other basic own fund items	**R0730**	4,192	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	22,967	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**		
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	3,351	
Total Expected profits included in future premiums (EPIFP)	**R0790**	3,351	

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Solvency Capital Requirement - for undertakings on Standard Formula

-		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	1,599		
Counterparty default risk	R0020	432		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	10,567		
Diversification	R0060	-1,294		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	11,302		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	751
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-1,507
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	10,547
Capital add-on already set	R0210	
Solvency capital requirement	R0220	10,547
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

		Yes/No
Approach to tax rate		C0109
Approach based on average tax rate	R0590	2 - No

Calculation of loss absorbing capacity of deferred taxes		LAC DT
		C0130
DTA	R0600	
DTA carry forward	R0610	
DTA due to deductible temporary differences	R0620	
DTL	R0630	
LAC DT	R0640	-1,507
LAC DT justified by reversion of deferred tax liabilities	R0650	0
LAC DT justified by reference to probable future taxable economic profit	R0660	0
LAC DT justified by carry back, current year	R0670	-1,507
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	192

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	3,579

		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	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090	2,324	3,411
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110	12,289	19,876
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	

		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	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation		C0070		
Linear MCR	R0300	3,387		
SCR	R0310	10,547	-	-
MCR cap	R0320	4,746		
MCR floor	R0330	2,637		
Combined MCR	R0340	3,387		
Absolute floor of the MCR	R0350	3,338		
-	-	C0070		
Minimum Capital Requirement	R0400	3,387		