Irwell
INSURANCE COMPANY LIMITED

Irwell Insurance Company Limited

Solvency and Financial Condition Report (SFCR)

As at 31 March 2022

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 2022. 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, which are written through companies in the Peninsula Business Services Group Limited ('PBSG'), acting as intermediaries. During the FY22 year, Irwell began writing additional lines of business, bringing on board 11 new intermediaries. The Solvency II lines of business written are legal expenses and general liability. All business written during the year was written in the UK. Due to the impact of Brexit, Irwell ceased to write policies in ROI from 1st January 2021 and were in run-off during the year ended 31st March 2022. No ROI policies remained as at the year end, but the outstanding claims will continue to be run off and reports will be submitted to the Central Bank of Ireland.

Gross premiums earned were lower than prior year at £23.1m compared to £25.0m. This was due primarily to a reduction in premiums written through PBS and CIL (formerly CTW), along with a delay in writing the new lines of business.

Irwell made an underwriting profit before profit commission of £6.7m compared to £8.2m in the previous year. This result generated a profit commission of £2.9m (2021: £2.2m). Whilst the profit was lower than FY21, it represented a significant increase on prior years.

Irwell's investments generated a loss of £1.2m (including investment expenses of £155k) in the year to 31 March 2022 compared with a return of £1.3m in the previous year. The Ukraine/Russia conflict, the tail-end of the COVID-19 pandemic as well as the impact of Brexit on the UK market have all combined to create a level of economic uncertainty that has disrupted the performance of the bond market. It is expected that the portfolio will bounce back during the FY23 year.

A dividend of £1.5m was declared and paid during the year ended 31st March 2022 (2021: £nil).

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 meets at least quarterly, with ad hoc Board meetings scheduled as required. 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. Additional, non-board committees include the Executive Committee (EC) and Underwriting Committee (UC).

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 have been implemented during the past year, in line with the new direction of the travel for the business. These changes to the structure have been reflected in the updated 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.

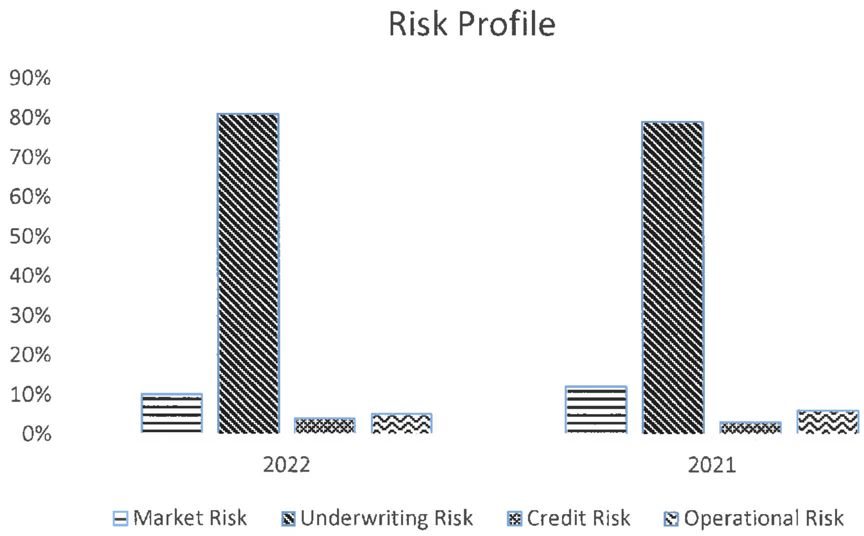
Further details of Irwell's system of governance are included in section B of this report.

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 2022 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 81% (2021: 79%) of the Company's undiversified risk profile. Whilst Irwell did begin writing new business during the FY22 year, the value of the new business written was largely immaterial in terms of Irwell's risk profile.

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 decreased to 10% of the overall risk profile, compared with 12% 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 mainly in relation to overdue premium receivables (type 2 counterparties) and in respect of deposits with banks (type 1 counterparties). Reinsurance was purchased during the year, and therefore credit risk relating to amounts due from reinsurers applies, but the value of the premiums in the year was minimal and therefore did not result in a significant movement in the risk. Investment credit risk is dealt with within market risk.

At 31 March 2022, credit risk comprised 4% of the Company's undiversified SCR (2021: 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 2022, operational risk comprised 5% of the Company's undiversified SCR (2021: 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:

	2022	**2021**
	£'000	**£'000**
Shareholders' equity per the financial statements	28,607	27,976
Solvency adjustments and reallocations - assets	(13,989)	(12,983)
Solvency adjustments and reallocations – technical provisions	8,618	9,181
Solvency adjustments and reallocations – other liabilities	6,303	2,985
Total own funds on a Solvency II basis	**29,539**	**27,159**

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.

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 2022 is £12,851k (2021: £10,547k). This is covered by £29,539k (2021: £27,159k) of eligible capital resources, giving a Solvency II surplus of £16,688k (2021: £16,612k) and a capital ratio of 230% (2021: 258%). 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.

K Blacklock

K Blacklock 5 July 2022
Chief Financial Officer

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 2022, the majority of business was written through companies in PBSG acting as intermediaries, being Peninsula Business Services Limited ('PBS'), Croner Group Limited ('CG'), Croner-I Limited (formerly Croner Taxwise Limited) ('CIL') 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 CIL provides indemnity against professional fees relating to HM Revenue & Customs investigations. During the year, Irwell also began writing Commercial LEI, Guarantors Liability and Standalone Liability products through several new intermediary relationships. The Commercial LEI business provides protection to businesses for legal expenses incurred in relation qualifying legal challenges. Guarantors Liability is a product designed to protect guarantors against default of rent by

A. Business and Performance (continued)

the tenant. The Standalone Liability product is a combination of Employers, Public and Products Liability sold through MGAs and brokers to businesses.

Until 2021, approximately 4% of business came 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. As at 31st March 2022, all existing ROI policies have been run off, and all remaining ROI claims are being handled accordingly.

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:

The COVID-19 pandemic has had little impact on the premium volumes throughout both FY21 and FY22. The existing lines of business written through the Peninsula group of businesses were not significantly affected, with sales and underwriting continuing throughout the pandemic.

The impact of the pandemic on claims, both opened in the period and relating to incidents occurring during the period will continue to be reviewed for any indicative long-term change in average value or incidence rate.

Other Economic Uncertainties

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 were cancelled or transferred over the following 12 months, making use of the Central Bank of Ireland's (CBI) Temporary Run-Off Regime, and as at 31st March 2022 Irwell held no ROI policies. Any ROI claims remaining open will continue to be serviced and will be reported through to CBI on an annual basis.

At the beginning of 2022, conflict arose between Ukraine and Russia. This conflict has resulted in shortages of fuel and other supplies, as well as driving the UK and other countries to try and lend support. These shortages, combined with the impact of Brexit on trade agreements, supply and workforce, and rising interest rates and inflation, have all combined to create a high level of economic uncertainty at the year end. Currently, there is no impact on the underwriting or performance of the products, and the only noticeable affect has been in relation to the return on investments. The management team are working closely with the investment advisors to review the situation. The impact of the conflict and other economic uncertainties will continue to be monitored over the coming months as the situation progresses.

A.2 Underwriting Performance

Underwriting performance

The following table summarises the underwriting performance of the Company:

	Legal expenses	*General liability*	*Total*
	£000	*£000*	*£000*
2022			
Gross premiums written			
- UK	19,310	5,093	24,403
- Ireland	-	-	-
	19,310	**5,093**	**24,403**
Gross premiums earned	18,797	4,285	23,082
Premiums earned net of RI	18,797	4,280	23,077
Gross claims incurred	4,457	4,116	8,573
Net operating expenses	9,835	842	10,677
Underwriting profit	**4,505**	**(678)**	**3,827**
Loss ratio	**23.7%**	**96.2%**	**37.1%**
Operational expense ratio	**52.3%**	**19.6%**	**46.3%**
Combined ratio	**76.0%**	**115.7%**	**83.4%**
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%**

A. Business and Performance (continued)

Net operating expenses are analysed as follows:

	Legal expenses	*General liability*	*Total*
	£000	*£000*	*£000*
2022			
Acquisition costs	5,852	305	6,157
Administrative expenses	1,426	226	1,652
Profit commission	2,557	311	2,868
Net operating expenses	**9,835**	**842**	**10,677**
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**

Gross premiums written have increased by 5% year on year, mainly due to the writing back of the Irish policies in FY21 and due to new lines of business written in FY22. Premiums earned decreased by 8% from prior year, due primarily to lower premiums written in PBS and CIL and offset by new business lines.

The overall loss ratio of 37.1% has deteriorated from prior year's 33.6% but is a significant improvement from FY20 56.8%. The legal expenses business performed particularly well during the year, with the loss ratio improving from 34.4% in FY21 to 23.7% in FY22.

In contrast, the Liability business deteriorated from a loss ratio of 29.7% in FY21 to 96.2% in FY22, with several large losses being noted in relation to the existing liability business. It is not anticipated that the increased liability claims value represents a long term shift in the average cost or volume of claims to be recognised going forward, but these values will be kept under review.

The overall impact of the increased claims has been to increase the combined ratio from 56% in FY21 to 116% in FY22 in relation to the liability product. However, the liability product sold within the PBS Group policies is sold as a combined product with the Legal, and some comfort can therefore be taken from the fact that the overall combined ratio is 83%.

Irwell made an underwriting profit before profit commission in the year to 31 March 2022 of £6,695k compared to £8,814k in 2021. As a result, profit commission of £2,868k was payable for the year, compared to £2,200k in FY21.

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. During FY22 the Standalone Liability product was introduced, with a limit of indemnity of £10m per claim. This was deemed to be too great a risk for the business to manage independently, and therefore excess of loss reinsurance was purchased in relation to the standalone liability product.

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 2022, the Company's investment portfolio comprised the following:

	31 March 2022		*31 March 2021*	
	£000	*% of total*	*£000*	*% of total*
Government bonds	298	1	2,078	4
Corporate bonds	37,036	76	35,422	77
Cash and cash equivalents	11,327	23	8,054	17
Futures contract	-	-	766	2
Loans	-	-	-	-
Total	**48,661**	**100**	**46,320**	**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 2022 was as follows:

	31 March 2022		*31 March 2021*	
	£000	*% of income*	*£000*	*% of income*
Government bonds	(4)	1	(44)	(3)
Corporate bonds	(1,107)	106	1,446	99
Cash and cash equivalents	0	0	5	1
Futures contracts	70	(7)	48	3
Loans	-	-	-	-
Investment income (including realised and unrealised gains and losses	**(1,041)**	**100**	**1,455**	**100**
Investment expenses	(155)		(147)	
Total	**(1,196)**		**1,308**	

A. Business and Performance (continued)

The past 3 financial years have seen a reasonable amount of volatility in the investment portfolio. 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. The 12 months following then saw a recovery of this balance and income of £1,455k was realised for FY21. During the FY22 year, the bond market has been impacted by a number of factors. Rising inflation and interest rates, as well as the impact of Brexit on the UK market and the developing conflict between Ukraine and Russia have all resulted in a level of economic uncertainty, and the bond market has suffered.

Irwell maintains a low-risk appetite in its investment portfolio, and as such the credit quality of the bond portfolio could be described as strong. At the yearend, 100% of the assets were held in Investment Grade bonds with the following rating breakdown: AAAs 3%, AAs 15%, As 61% and BBBs 21%. The portfolio is well diversified both regionally and from a sector point of view. The UK is home to 36% of bond investments followed by the US and the Netherlands whilst banks attract 26% of the assets. Individual exposure to any single issuer is limited to 5% for A rated issuers and above and to 1.5% to BBB-rated issuers. Duration risk is relatively low at 2.1 years, with most investments held in the 1-to-3 year maturity bucket. 95% of securities held rank as Senior unsecured, 4% are secured (either covered or collateralised) and 1% 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.

The executive management team comprises three executive directors, being the CEO, the CFO and the CRO. During the year, the business has recruited additional senior managers to support the executive directors, including a Claims Manager and a Senior Underwriter.

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.

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.

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.

Following the year-end, the Chairman stepped down from holding responsibility for oversight of the Actuarial Function. The Company has appointed a partner within Barnett Waddingham to the SMF20 function to take on responsibility for oversight of the Actuarial Function together with the CFO.

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.

B. Systems of Governance (continued)

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 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.

This year has seen a number of functions move in-house. This includes most of the claims management, with a claims management team joining the Company on 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 and changes in the composition of the board and management structure.

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, P. E. Done is a non-executive director of the Company and F. Done was a non-executive director of the Company during the year until his resignation from the board in December 2021. Throughout the year they also owned 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 2022, Irwell wrote the majority of its business for the clients of PBSG and its subsidiary companies. Therefore, the majority of premiums received and 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 previously received a small fee for management and administration (2021: £10k), but no fee was paid in 2022 due to the changes to the Irwell team and the setup of systems for reporting. Commission paid by the Company totalled £6,164k (2021: £8,111k) of which £1,937, (2021: £2,217k) was owed at the year-end. The PBSG subsidiaries also received fees for claims handling expenses of £1,790k (2021: £1,390k), 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:

B. Systems of Governance (continued)

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, the operational functions together with its intermediaries, to whom underwriting is outsourced, and the outsourced actuarial function. All share responsibility for risk management at the operational level.

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 CRO is 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.

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;

B. Systems of Governance (continued)

- 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:

- 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 NED. This increased overall team will allow for greater segregation of duties across the Company.

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.

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.

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 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;

B. Systems of Governance (continued)

- 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

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 covers, amongst other things:

- Where responsibility for outsourcing sits within Irwell
- Guidelines and procedures on the materiality assessment, due diligence and risk assessment of any outsourced service provider
- Guidelines on Irwell's contractual arrangements for any outsourced service provider
- Responsibility for oversight of each outsourced service provider, including the requirement that a named senior manager be responsible for each arrangement
- Guidelines around termination and exit management
- Formal authorities for the appointment of outsourced service providers

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 FY22, the Company has begun 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 2022, the business was sourced solely via authorised intermediaries who act under a delegated risk transfer agreement for underwriting and with claims being handled, in respect of legal expenses, in-house and through the use of panel solicitors and, in respect of liability business, through claims handling agreements with Third Party Administrators (TPAs). 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 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 2022, all intermediaries were contracted under market standard delegated underwriting authority agreements;
- 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 Committee;
- 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 of both their compliance with the delegated underwriting authority agreement and their own underwriting processes.
- 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:

- The majority of business written up to 31st March 2022 was on a claims-made basis;
- Standalone liability business is written on a claims occurring basis and has a longer-tail in terms of claims development; however, this represents a small proportion of the overall business written during the period;
- 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 2022, the majority of the business written by Irwell 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.

The standalone liability business does have an exposure to catastrophe risk and, therefore, the decision was taken to purchase excess of loss reinsurance to mitigate against this risk.

Lapse risk

Up to 31st March 2022, 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 the majority of its 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 2022, non-life underwriting risk accounted for 81% (2021: 79%) 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 2022 of 2.12 (2021: 2.47) 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 2022, interest rate risk accounted for less than 0.1% (2021: 0.4%) of our undiversified SCR.

C. Risk Profile (continued)

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 2022, spread risk accounted for 10% (2021: 11%) 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 majority 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 10% (2021: 12%) of the Company's undiversified SCR at 31 March 2022.

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 and recoveries due from reinsurers (type 1 counterparties). Investment credit risk is dealt with in C2 (Market Risk) above. In respect of reinsurance, our Reinsurance Policy sets out the requirements in respect of the selection of reinsurers to mitigate 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 audit reviews.

Amounts due from intermediaries

All of the premium debtors on the Irwell balance sheet will be collected by our intermediaries, of the majority of which (in terms of the level of business written) 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 2022, the credit risk relating to amounts due from intermediaries amounted to nil (2021: nil).

Going forward, it is likely that the credit risk may increase, as Irwell brings in 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.

Risk sensitivity to credit risk

At 31 March 2022, credit risk relating to deposits with banks (type 1 counterparty risk) accounted for 4% of Irwell's undiversified SCR (2021: 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 2022.

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 £3,696k (2021: £3,351k), 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.

C. Risk Profile (continued)

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 is performed, 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 2022 the capital ratio was 230% (2021: 258%).

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
- 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 2022, the critical function of underwriting has been delegated to the Company's intermediaries. Claims handling is dealt with in-house, and supported by TPAs and panel solicitors. 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, TPAs and panel solicitors;
- Irwell proactively manages performance of the intermediaries in respect of the delegated authorities; and
- Each intermediary is regulated by the FCA (or the SRA in respect of solicitors) in their own right and Irwell monitors those companies' interactions with the regulator.

People

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.

The Company has in place a robust training policy in respect of all staff and this is monitored by the RC to ensure that all individuals employed have the necessary training and skills to fulfil their roles.

Systems – implementation of new systems

Throughout the year the Company has introduced new IT systems to manage Underwriting (IIP), Claims (CCM) and Finance (Sage). As these systems are implemented, there are risks that those systems either fail or fail to operate as intended. This risk is monitored by the RC and reviewed quarterly during the development, implementation and go-live stage of the system build.

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 2022 (2021: 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 91% (2021: 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 for the majority of this business, 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 2022:

	Financial statements valuation	Reanalysis for solvency	Solvency valuation adjustments	Solvency valuation
	£'000	£'000	£'000	£'000
Fixed Assets	258	-	-	258
Government and corporate bonds	36,982	352	-	37,334
Futures contracts	-	-	-	-
Amounts due from intermediaries	10,959	(10,956)	-	3
Deferred tax asset	-	-	-	-
Cash at bank	11,327	-	-	11,327
Deferred acquisition costs	2,814	-	(2,814)	-
Accrued interest	352	(352)	-	-
Prepayments & Other Assets	166	-	-	166
Total assets	62,858	(10,956)	(2,814)	49,088

D1.1a 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

D1.2 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 £nil (2021: £766k) 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 2022. 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 2022:

Line of business	Claims provision	Premium provision	Risk margin	Total technical provisions
	£'000	£'000	£'000	£'000
General liability	5,599	(1,166)	473	4,906
Legal expenses	13,958	(2,530)	1,941	13,369
Total	**19,557**	**(3,696)**	**2,414**	**18,275**

D2.1a Technical provisions at 31 March 2021:

Line of business	Claims provision	Premium provision	Risk margin	Total technical provisions
	£'000	£'000	£'000	£'000
General 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**

D2.2 Solvency valuation

Technical provisions comprise claims provisions, premium provisions and a risk margin. The legal expenses and liability components of the provisions have been considered separately.

A change to the PBS liability claims provision methodology was implemented during the year, moving to a reserve based on an Average Cost Per Claim (ACPC) methodology for the first three years, then moving to an individual case estimate reviewed by the claims team.

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 2022 is small. The claims reserve is based on estimates validated by an ACPC review.

Claims provision losses for CIL 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 all classes, 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.

During the year, a claims handling team was brought into Irwell, and the claims handling authority removed from PBS, CGL and BHR. 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 the majority of business is written on a claims made basis. All business apart from the new standalone liability line, written from January 2022, is written on a claims made basis. Irwell has therefore introduced an IBNR to the provisions at the year end, but the value is not significant due to the low value of business written during the year. The business always considers whether there is 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.
- The new lines of business, and new intermediaries, introduced during the year increase the uncertainty attached to the technical provisions, as the data available for measurement is limited.
- On the majority of business written, 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. CIL 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 new standalone liability product has a £10m limit on each product line, however Irwell has mitigated the risk of catastrophe exposure by contracting excess of loss reinsurance in relation to this business.

- The determination of the premium provision is inherently uncertain in that it 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.
- The current economic environment, impacted by the long-term impact of the pandemic, UK's decision to exit the EU and the Ukraine/Russia conflict, has created additional uncertainty for the technical provisions. Rising interest and inflation rates may increase the cost of claims for instance. The impact of the economic uncertainty on the underwriting performance 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 2022	Third party liability	Legal expenses	Total
	£'000	£'000	£'000
Claims provision			
UK GAAP claims provisions	5,365	10,135	15,500
Removal of prudence margin	(549)	(191)	(740)
Reallocation of claims creditors	371	1,038	1,409
Removal of claims handling reserve	(152)	(102)	(254)
Reallocation of profit commission	311	2,557	2,868
ENID	139	377	516
Expenses adjustment	280	908	1,188
Discounting	(166)	(764)	(930)
Claims provision per solvency valuation	**5,599**	**13,958**	**19,557**
Premium provision			
UK GAAP UPR	2,818	8,576	11,394
Removal of DAC	(218)	(2,596)	(2,814)
Removal of profit on UPR	(1,080)	(2,410)	(3,490)
Bound but not incepted business	(4)	(719)	(723)
Reallocation of premium debtors	(3,153)	(7,803)	(10,956)
Reallocation of commission creditors	180	1,897	2,077
ENID	80	133	213
Expenses adjustment	91	315	406
Future profit commission	207	395	602
Discounting	(87)	(318)	(405)
Premium provision per solvency valuation	**(1,166)**	**(2,530)**	**(3,696)**
Risk margin	**473**	**1,941**	**2,414**
Total technical provisions per solvency valuation	**4,906**	**13,369**	**18,275**

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**

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 has purchased reinsurance during the year, however there are no reinsurance recoverables included within the assumptions due to the small volumes written as at the year end. The recoverables balance will be considered in future years.

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 2022:

	Financial statements valuation	Reanalysis for solvency purposes	Solvency valuation adjustments	Solvency valuation
	£'000	£'000	£'000	£'000
Insurance creditors	6,355	(6,354)	-	1
Other creditors	698	52	-	750
Accruals	304	-	-	304
Total	**7,357**	**(6,302)**	**-**	**1,055**

D3.1a 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**

D3.2 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 2022, there is no derivative financial liability included within other creditors (2021: £766k).

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)			
Fixed Assets	258	-	258
Investments	36,982	352	37,334
Cash	11,327	-	11,327
Debtors	10,959	(10,956)	3
Prepayments & Other Debtors	3,332	(3,166)	166
Total Assets	**62,858**	**(13,770)**	**49,088**
Liabilities (see D2.4)			
Claims provision	15,500	4,057	19,557
Premium provision	11,394	(15,090)	(3,696)
Risk margin	-	2,414	2,414
Technical provisions	26,894	(8,619)	**18,275**
Deferred Tax Liability	-	219	219
Other liabilities (see D3.1)	7,357	(6,302)	1,055
Total Liabilities	**34,251**	**(14,702)**	**19,549**
Total Net Assets	**28,607**	**932**	**29,539**

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	2022	2022	2021	2021
		£'000	%	£'000	%
Ordinary share capital	1	4,000	13.5	4,000	14.7
Reconciliation reserve	1	25,758	87.2	22,967	84.6
Sub-total Tier 1		**29,758**	**100.7**	**26,967**	**99.3**
Deferred tax asset/(liability)	3	(219)	(0.7)	192	0.7
Total own funds		**29,539**	**100**	**27,159**	**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.

A dividend of £1.5m has been declared and paid during the year ended 31 March 2022 (2021: £nil).

Only tier 1 items totalling £29,758k (2021: £26,968k) are available to cover the MCR.

There are no restrictions regarding the availability of own funds.

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:

	2022	**2021**
	£'000	**£'000**
Shareholders' equity in the UK GAAP financial statements	28,607	27,976
Adjust technical provisions to best estimate	2,230	1,218
Risk margin	(2,414)	(2,485)
Discounting of technical provisions	1,335	258
Deferred tax asset/(liability)	(219)	192
Total own funds	**29,539**	**27,159**

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 2022, the SCR was £12,851k (2021: £10,547k).
The SCR was determined using the standard formula, and is summarised as follows:

	2022	**2021**
	£'000	**£'000**
Market risk	1,452	1,598
Counterparty default risk	609	432
Non-life underwriting risk	11,894	10,566
Diversification	(1,296)	(1,294)
Total Basic SCR	**12,659**	**11,302**
Operational risk	692	752
Deferred tax adjustment	(500)	(1,507)
Total SCR	**12,851**	**10,547**

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

E. Capital Management (continued)

E2.2 MCR

At 31 March 2022, the MCR was £3,682k (2021: £3,387k).
Inputs used by the Company to calculate the MCR were as follows:

Line of business	**Technical provisions**		**Written premiums in last 12 months**	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Third-party liability	4,433	2,324	5,038	3,411
Legal expenses	11,428	12,289	19,309	19,876
Total	**15,861**	**14,613**	**24,347**	**23,287**

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 £3,126k as at 31 March 2022 (2021: £3,332k).

E2.3 Analysis of change

The Company's solvency capital requirement has increased year on year from £10,547k in FY21 to £12,851k in FY22. This is due in part to a large deferred tax adjustment at the 2021 year end, but also due to the introduction of the new liability products during the FY22 year. The Employers Liability product in particular requires a large capital balance held for the premiums written.

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 2022, the Company's solvency surplus was £16,688k (2021: £16,612k), giving a capital ratio of 230% (2021: 258%).

The movement in the surplus is analysed as follows:

	2022	2021
	£'000	£'000
Solvency surplus at 1 April	16,612	10,419
Generated from operating activities	3,880	5,668
Dividend paid	(1,500)	-
Decrease/(increase) in SCR	(2,304)	525
Solvency surplus at 31 March	**16,688**	**16,612**

Irwell's solvency position remains strong and is expected to remain above the target ratio of 150% under any applicable COVID-19 related stresses.

Annex - Quantitative reporting templates

P.02.01.02	Balance Sheet
P.05.01.02.01	Premiums, claims and expenses by line of business
P.17.01.02	Non-Life Technical Provisions
P.19.01.21	Non-Life Insurance Claims Information
P.23.01.01	Own funds
P.25.01.21	Solvency Capital Requirement
P.28.01.01	Minimum Capital Requirement

Annex – Quantitative Reporting Templates

Annex I
S.02.01.02
Balance sheet

		Solvency II value
Assets		C0010
Intangible assets	R0030	
Deferred tax assets	R0040	
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	40,850
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	37,334
Government Bonds	R0140	299
Corporate Bonds	R0150	36,528
Structured notes	R0160	
Collateralised securities	R0170	508
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	3,516
Other investments	R0210	
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	3
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	7,811
Any other assets, not elsewhere shown	R0420	424
Total assets	R0500	49,088

Annex – Quantitative Reporting Templates

Annex I
S.02.01.02
Balance sheet

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	18,275
Technical provisions – non-life (excluding health)	**R0520**	18,275
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	15,861
Risk margin	**R0550**	2,415
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**	219
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	1
Reinsurance payables	**R0830**	
Payables (trade, not insurance)	**R0840**	750
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	304
Total liabilities	**R0900**	19,548
Excess of assets over liabilities	**R1000**	29,540

Annex – Quantitative Reporting Templates

Annex I

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**	5,095	19,309	24,404
Gross - Proportional reinsurance accepted	**R0120**			
Gross - Non-proportional reinsurance accepted	**R0130**			
Reinsurers' share	**R0140**	57	-	57
Net	**R0200**	5,038	19,309	24,347
Premiums earned				
Gross - Direct Business	**R0210**	4,287	18,795	23,082
Gross - Proportional reinsurance accepted	**R0220**			
Gross - Non-proportional reinsurance accepted	**R0230**			
Reinsurers' share	**R0240**	5		5
Net	**R0300**	4,282	18,795	23,076
Claims incurred				
Gross - Direct Business	**R0310**	3,893	4,298	8,192
Gross - Proportional reinsurance accepted	**R0320**			
Gross - Non-proportional reinsurance accepted	**R0330**			
Reinsurers' share	**R0340**			
Net	**R0400**	3,893	4,298	8,192
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**	1,087	10,125	11,213
Other expenses	**R1200**			
Total expenses	**R1300**			11,213

Annex – Quantitative Reporting Templates

Annex I

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	(1,165)	(2,531)	(3,696)
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	(1,165)	(2,531)	(3,696)
Claims provisions				
Gross	R0160	5,599	13,958	19,557
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	5,599	13,958	19,557
Total Best estimate - gross	R0260	4,433	11,428	15,861
Total Best estimate - net	R0270	4,433	11,428	15,861
Risk margin	R0280	474	1,941	2,415
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	4,907	13,368	18,275
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	4,907	13,368	18,275

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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											34
2012	R0160	4,201	4,844	1,136	649	256	237	-59	1	5	92	
2013	R0170	3,734	5,137	1,940	361	80	143	20	12	85		
2014	R0180	3,456	3,744	704	556	42	71	92	3			
2015	R0190	3,526	3,599	1,100	263	147	81	164				
2016	R0200	3,222	4,273	967	457	430	546					
2017	R0210	4,512	5,993	1,434	555	761						
2018	R0220	5,077	4,369	1,091	1,238							
2019	R0230	4,130	3,295	2,494								
2020	R0240	1,909	2,837									
2021	R0250	1,441										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	34	34
	R0160	92	11,362
	R0170	85	11,512
	R0180	3	8,668
	R0190	164	8,880
	R0200	546	9,895
	R0210	761	13,255
	R0220	1,238	11,776
	R0230	2,494	9,920
	R0240	2,837	4,746
	R0250	1,441	1,441
Total	R0260	9,697	91,490

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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)

	Year		1	2	3	4	5	6	7	8	9	10 & +
		C0200	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**
Prior	**R0100**											0
2011	**R0160**					753	326	226	200	209	100	
2012	**R0170**				1,747	788	375	273	189	122		
2013	**R0180**			1,703	674	510	367	216	281			
2014	**R0190**		3,318	1,410	736	413	352	122				
2015	**R0200**	3,875	3,430	2,372	1,814	1,616	892					
2016	**R0210**	7,374	4,882	2,913	2,376	1,742						
2017	**R0220**	5,883	5,426	3,570	2,187							
2018	**R0230**	5,868	6,535	3,689								
2019	**R0240**	3,026	4,326									
2020	**R0250**	7,026										

		Year end (discounted data)
		C0360
	R0100	0
	R0160	99
	R0170	120
	R0180	272
	R0190	116
	R0200	848
	R0210	1,678
	R0220	2,097
	R0230	3,546
	R0240	4,181
	R0250	6,601
Total	**R0260**	19,557

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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	25,540	25,540			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
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	29,540	29,540			
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	29,540	29,540			
Total available own funds to meet the MCR	R0510	29,540	29,540			
Total eligible own funds to meet the SCR	R0540	29,540	29,540			
Total eligible own funds to meet the MCR	R0550	29,540	29,540			
SCR	R0580	12,851				
MCR	R0600	3,682				
Ratio of Eligible own funds to SCR	R0620	2.2985				
Ratio of Eligible own funds to MCR	R0640	8.0221				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	29,540	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	4,000	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	R0760	25,540	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770		
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	4,060	
Total Expected profits included in future premiums (EPIFP)	R0790	4,060	

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	1,452		
Counterparty default risk	R0020	609		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	11,893		
Diversification	R0060	-1,296		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	12,659		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	692
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-500
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	12,851
Capital add-on already set	R0210	
Solvency capital requirement	R0220	12,851
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	-500
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	-500
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	0

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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**	4,433	5,038
Credit and suretyship insurance and proportional reinsurance	**R0100**		
Legal expenses insurance and proportional reinsurance	**R0110**	11,428	19,309
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**	3,682		
SCR	**R0310**	12,851	-	-
MCR cap	**R0320**	5,783		
MCR floor	**R0330**	3,213		
Combined MCR	**R0340**	3,682		
Absolute floor of the MCR	**R0350**	3,126		
-	-	C0070		
Minimum Capital Requirement	**R0400**	3,682		