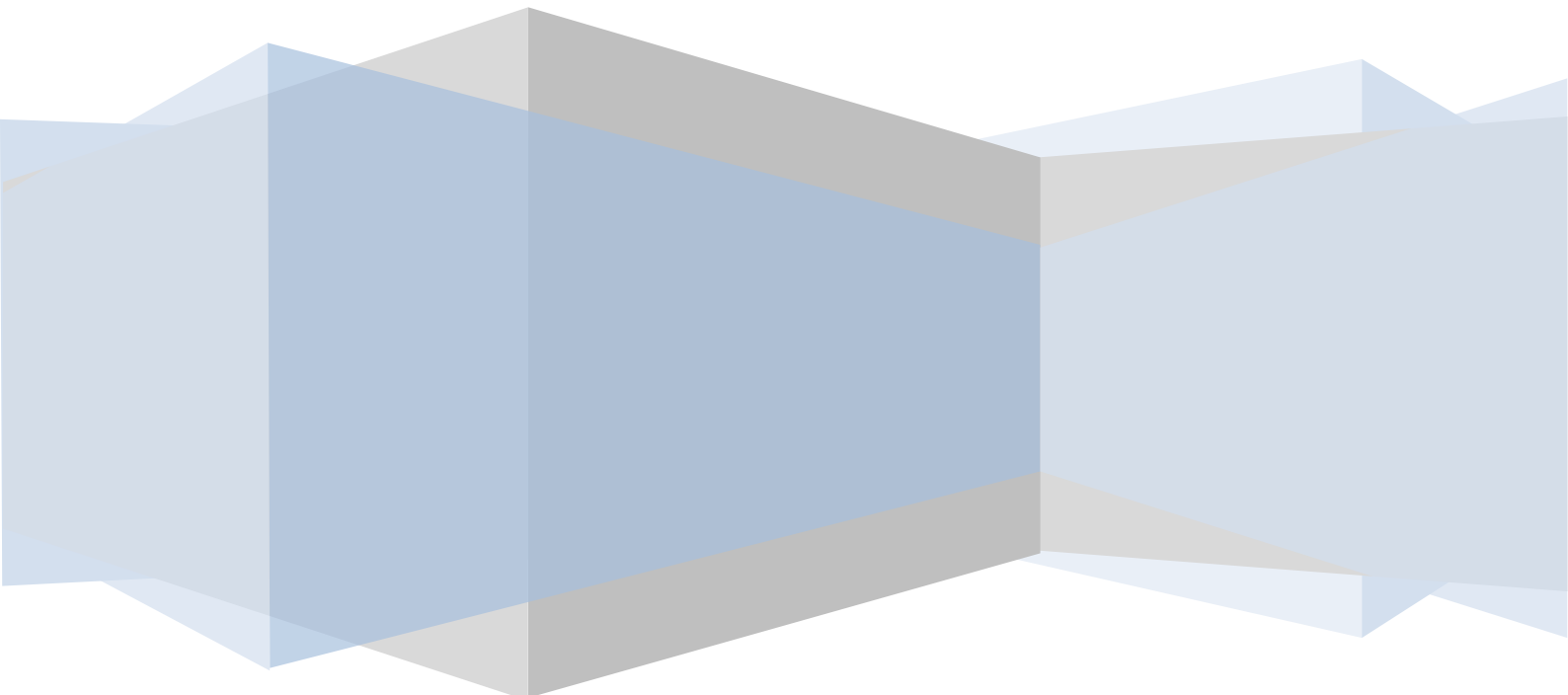




Irwell Insurance Company Limited

**Solvency and Financial
Condition Report (SFCR)
As at 31 March 2020**



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Irwell Insurance Company Limited

Solvency and Financial Condition Report

31 March 2020

Executive Summary

The purpose of the 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 2020. 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.

COVID-19

On 11 March 2020, the World Health Organization declared the outbreak of a new strain of coronavirus, named COVID-19, a global pandemic. The resulting worldwide government actions have had a significant impact on the global economy and financial markets have suffered significant falls.

The PRA rulebook requires firms to disclose information on the nature and effects of any major development that significantly affects the relevance of the information in the Solvency and Financial Condition Report. The PRA has stated that it considers COVID-19 to be a major development.

In accordance with this requirement, we have included disclosure of the impact of COVID-19 on the Company, as deemed relevant, within each section of this report.

Business and performance

The Company continues to operate profitably in its specialist area of insuring employment and taxation risks. All business is written through companies in the Peninsula Business Services Group Limited ('PBSG'), acting as intermediaries. The Solvency II lines of business written are legal expenses and general liability. With the exception of a small amount of business that is written in the Republic of Ireland, all business is written in the UK.

Gross premiums earned have reduced by 6%. Due to regulatory changes in the second half of 2018, the tax fee protection premiums charged by our sub-agents to their clients are lower than previously, but there is a commensurate reduction in the commission taken. The net premium to Irwell in respect of this business remains substantially unchanged.

Irwell made an underwriting profit before profit commission of £2,190k compared to £3,176k in the previous year. This result generated a profit commission of £595K (2019: £1,741K).

Irwell's investments generated a return of £70k (net of investment expenses of £124k) in the year to 31 March 2020 compared with a return of £635k in the previous year. The overall return included loan interest receivable of £250k (2019: £236k). The performance of the bond portfolio was significantly impacted by the COVID-19 related market falls in March 2020. Since the year end, the majority of that fall has reversed.

An interim dividend of £3m (2019: nil) has been paid during the year. No final dividend has been declared for the year ended 31 March 2020 (2019: nil).

Irwell Insurance Company Limited

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Executive Summary

System of governance

Irwell is confident in the robustness of its governance procedures, considering them to be both appropriate and proportionate. In delivering our system of governance, we are well supported by our outsourced actuarial and internal audit partners.

The Board normally meets four times a year. The Board members are provided with appropriate and timely information to enable them to review the Company's business strategy, operations, trading performance, regulatory compliance and risk management. The Board is supported by two board committees, the Audit Committee (AC) and the Risk Committee (RC).

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 implemented a three lines of defence model which has established clear roles and responsibilities for its risk management. Each line of defence has clear reporting lines to the Board to ensure that information relating to risk matters is appropriately communicated.

Irwell's Own Risk and Solvency Assessment (ORSA) process is an integral part of its risk management system. The three executive directors are jointly responsible for all aspects of the process, covering business planning, risk assessment and capital and solvency assessments. Irwell's Board is responsible for the development of the ORSA and its ultimate review and approval. It is assisted in fulfilling this responsibility by the detailed oversight and challenge performed by the RC.

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

Irwell Insurance Company Limited

Solvency and Financial Condition Report

31 March 2020

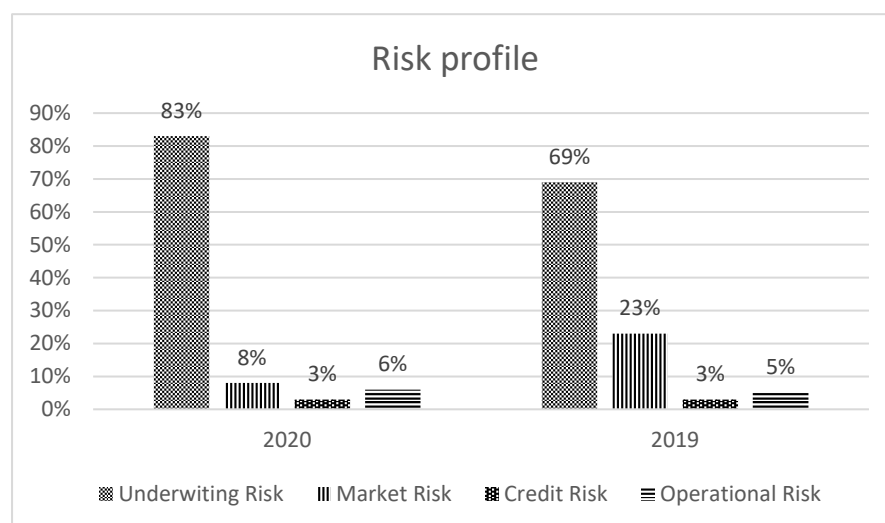
Executive Summary

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 through a combination of internal controls and capital allocations.

The chart below shows the composition of Irwell's undiversified SCR as at 31 March 2020 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 83% (2019: 69%) of the Company's undiversified risk profile. There has been no change in the business written by the Company in the year. This change in the underwriting risk contribution to the overall risk profile is largely the result of an overall decrease in the SCR, which is driven by a decrease in the concentration risk component of the market risk type (see market risk below).

In the year under review, the Company's underwriting activities have been unaffected by COVID-19. For general insurers, the principal exposure from COVID-19 is to business interruption and event cancellation risks and Irwell does not write such risks. Going forward, as the economic impact of the

Irwell Insurance Company Limited

Solvency and Financial Condition Report

31 March 2020

Executive Summary

UK lockdown measures unfold, it is possible that claim frequency in the employment segment of our business will increase and this will be monitored carefully.

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 reduced to 8% of the overall risk profile, compared with 23% in the prior year. This decrease is largely the result of the repayment of a loan advanced to an unrated counterparty which attracted a high capital charge 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 we have a low risk, well diversified portfolio of investment assets which is fully compliant with the prudent person principle.

Markets are sensitive to COVID-19 developments and this has increased our market risk. Going forward, we expect corporate bond markets to be supported by central bank asset purchases, abundant liquidity and zero interest rates. The principal risk to this outlook is a resurgence of the virus in the latter part of 2020 leading to renewed lockdown measures.

Credit risk

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

At 31 March 2020, credit risk comprised 3% of the Company's undiversified SCR (2019: 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 2020, operational risk comprised 6% of the Company's undiversified SCR (2019: 5%).

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

Irwell Insurance Company Limited

Solvency and Financial Condition Report

31 March 2020

Executive Summary

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:

	2020	2019
	£'000	£'000
Shareholders' equity per the financial statements	21,561	23,212
Solvency adjustments and reallocations - assets	(14,308)	(13,649)
Solvency adjustments and reallocations – technical provisions	10,442	8,217
Solvency adjustments and reallocations – other liabilities	3,796	5,161
Total own funds on a Solvency II basis	21,491	22,941

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.

Our investment portfolio was affected by the COVID-19 market falls in the month of March with a consequent impact on the solvency valuation at 31 March 2020. COVID-19 has had no effect on the valuation for solvency purposes of any other of the Company's assets and liabilities.

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

Irwell Insurance Company Limited

Solvency and Financial Condition Report

31 March 2020

Executive Summary

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 2020 is £11,072k (2019: £12,837k). This is covered by £21,491k (2019: £22,941k) of eligible capital resources, giving a Solvency II surplus of £10,419k (2019: £10,104k) and a capital ratio of 194% (2019: 179%). Our solvency position would remain above our target ratio under any applicable COVID-19 related stresses.

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

C Houghton Chairman

24 June 2020

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. All business is written through companies in PBSG, acting as intermediaries, being Peninsula Business Services Limited ('PBS'), Croner Group Limited ('CG'), Croner Taxwise Limited ('CTW') and Bright HR Limited ('BHR'). The business written through PBS, CG and BHR provides indemnity against awards and costs relating to employment tribunal claims and legal costs relating to potential breaches of Health and Safety legislation and that written through CTW provides indemnity against professional fees relating to HM Revenue & Customs investigations.

Most of our business is UK based although approximately 4% of our business comes from the Republic of Ireland.

A. Business and Performance

Significant business or external events in the year

COVID-19

On 11 March 2020, the World Health Organization declared the outbreak of a new strain of coronavirus, named COVID-19, a global pandemic. The resulting worldwide government actions have had a significant impact on the global economy and in financial markets have suffered significant falls.

The PRA rulebook requires firms to disclose information on the nature and effects of any major development that significantly affects the relevance of the information in the Solvency and Financial Condition Report. The PRA has stated that it considers COVID-19 to be a major development.

In accordance with this requirement, we have included disclosure of the impact of COVID-19 on the Company, as deemed relevant, within each section of this report.

Brexit

The UK exited the European Union ('EU') on 31 January 2020 and, as a result, Irwell has taken 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 ends on 31 December 2020. As a result, we will cease writing new business or renewing existing business in the Republic of Ireland, although we do intend to manage the run off of existing business until the end of 2022 in accordance with the EU run off regime.

BHR

From October 2019, Irwell has been writing business introduced by BHR, a PBSG subsidiary. BHR offers an HR software and support service to SMEs. The risks that we underwrite are essentially the same as for PBS, although claim limits are lower.

A. Business and Performance

A.2 Underwriting Performance

Underwriting performance

The following table summarises the underwriting performance of the Company:

	<i>Legal expenses</i>	<i>General liability</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
2020			
Gross premiums written			
- UK	20,882	3,809	24,691
- Ireland	453	480	933
	21,335	4,289	25,624
Gross premiums earned	20,990	3,852	24,842
Gross claims incurred	(12,843)	(1,266)	(14,109)
Net operating expenses	(8,076)	(1,062)	(9,138)
Underwriting profit	71	1,524	1,595
Loss ratio	61.2%	33.1%	56.8%
Operational expense ratio	38.5%	27.5%	36.8%
Combined ratio	99.7%	60.6%	93.6%
2019			
Gross premiums written			
- UK	21,512	3,680	25,192
- Ireland	813	846	1,659
	22,325	4,526	26,851
Gross premiums earned	22,993	3,442	26,435
Gross claims incurred	(10,781)	(887)	(11,668)
Net operating expenses	(11,160)	(2,172)	(13,332)
Underwriting profit	1,052	383	1,435
Loss ratio	48.2%	21.8%	44.1%
Operational expense ratio	49.9%	53.3%	50.4%
Combined ratio	98.1%	75.1%	94.5%

A. Business and Performance

Net operating expenses are analysed as follows:

	<i>Legal expenses</i>	<i>General liability</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
2020			
Acquisition costs	(7,198)	(586)	(7,784)
Administrative expenses	(601)	(158)	(759)
Profit commission	(277)	(318)	(595)
Net operating expenses	(8,076)	(1,062)	(9,138)
2019			
Acquisition costs	(10,009)	(918)	(10,927)
Administrative expenses	(478)	(186)	(664)
Profit commission	(982)	(759)	(1,741)
Net operating expenses	(11,469)	(1,863)	(13,332)

Gross premiums earned have reduced by 6%. Regulatory changes in the second half of 2018 resulted in the tax fee protection premiums charged by our sub-agents being lower than previously. The current financial year represents a full year impacted by this change. There is a commensurate reduction in acquisition costs.

The loss ratio increased by 12.7% compared to the previous year, driven principally by prior year reserve deteriorations in the tax fee protection business in response to higher than expected increases in average claim costs.

Acquisition costs have decreased by £3.1m. £2m of this reduction is attributable to the change relating to the tax fee protection business discussed under gross earned premiums above. The remainder of the decrease relates to the employment business introduced by PBS, where the commission rate was reduced from 35% to 5% from 1 April 2018. The unwinding of the deferred acquisition costs during the previous year resulted in a higher earned commission figure than that relating to the current year.

Irwell made an underwriting profit before profit commission in the year to 31 March 2020 of £2,190k compared to £3,176k in 2019. As a result, a lower level of profit commission is payable.

Reinsurance

The Company does not purchase reinsurance since we deem our catastrophe risk to be low. This is a decision that is regularly reviewed and confirmed.

COVID-19

In the year under review, the Company's underwriting activities have been unaffected by COVID-19. For general insurers, the principal exposure from COVID-19 is to business interruption and event cancellation risks and Irwell does not write such risks.

A. Business and Performance

A.3 Investment Performance

Overall investment performance

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

At 31 March 2020, the Company's investment portfolio comprised the following:

	31 March 2020		31 March 2019	
	£000	% of total	£000	% of total
Government bonds	5,205	13	552	1
Corporate bonds	25,608	66	26,531	63
Cash and cash equivalents	8,081	21	6,413	16
Futures contract	-	-	3,364	8
Loans	-	-	5,000	12
Total	38,894	100	41,860	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 futures contract that expired on 31 March 2020 was not renewed and therefore the Company did not hold a futures contract at that date.

The investment yield for the year ended 31 March 2020 was as follows:

	31 March 2020		31 March 2019	
	£000	% of income	£000	% of income
Government bonds	113	58	4	1
Corporate bonds	(97)	(50)	580	77
Cash and cash equivalents	31	16	19	3
Futures contracts	(103)	(53)	(87)	(12)
Loans	250	129	236	31
Investment income (including realised and unrealised gains and losses)	194	100	752	100
Investment expenses	(124)		(117)	
Total	70		635	

On the 20 December 2018, a loan of £5million was made to Goldentree Financial Services PLC (Goldentree) at an annual rate of interest of 7%. Interest accrued and paid in the period to 31 March 2020 amounted to £250k. On 18 December 2019 the loan was repaid in full.

A. Business and Performance

Our portfolio posted modest returns for the year after strong investment performance up until February 2020 was curtailed by the COVID-19 blow to markets in March 2020. The moderate growth and inflation figures during 2019 underpinned a low rate environment bolstering corporate bonds. The immediate effect of COVID-19 was a drop in the value of our investments in the month of March of c£800k to £31.9m. This produced a net loss for the year of £87k on our investment portfolio before investment expenses. Since the year end, markets have been in a recovery mode, buttressed by central bank asset purchase activity and hopes for a relatively swift unwind of the lockdown with the result that the majority of that fall has reversed. As at the end of May 2020, the value of our portfolio has increased by some £700k since the year end to £32.6m and our overall investment return over these 2 months is 2.11%.

A.4 Performance of other activities

Irwell has no leasing arrangements.

There are no income or expense items other than those detailed in A.2 and A.3 respectively.

A.5 Any other information

COVID-19

Information presented in Section A of this report represents the performance of the business as reported in the Company's financial statements for the year ended 31 March 2020. COVID-19 has had no effect on our underwriting activities. The effect of Covid-19 on our investment portfolio is described in A3 above.

B. System 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.

Audit and Risk committees

The Board has established two board committees to assist it in performing its oversight functions. These are the Audit Committee (AC) and the Risk Committee (RC). The terms of reference of the two committees are explained below.

Audit committee

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

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.

Executive management

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

B. System of Governance

Our four intermediaries, PBS, CG, CTW and BHR, each operate under a delegated risk authority. Each intermediary both writes the business and handles the claims on our behalf, reporting both premiums and claims to Irwell on a monthly basis. Therefore, an important function of executive management is the control and regular monitoring of these outsourced functions.

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

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

B. System of Governance

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 ensuring 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.

B. System of Governance

Internal audit

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

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

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

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

Outsourcing

Irwell operates a business model under which most services provided to the Company are outsourced. Therefore, an important function of executive management is the control and regular monitoring of these outsourced functions and the three executive directors are 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.

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 have been no material changes to the system of governance over the reporting period.

Remuneration policy

The Company's only employees are the three executive directors. Their remuneration is recommended by the remuneration committee and approved by the Board. The Company does not operate a performance based remuneration scheme. Its remuneration practices are therefore considered to be consistent with sound and effective risk management and do not encourage excessive risk taking. The remuneration structure for one non-executive director consists of an annual retainer fee. The other non-executive directors receive no remuneration. The Company does not

B. System of Governance

operate a pension scheme; the Company makes annual contributions into the personal pension arrangements of one director.

Related party transactions

F. Done and P. E. Done are the ultimate controllers of this Company. Throughout the year they were also directors of and owed a controlling interest in PBSG which is the parent of Peninsula Business Services Limited, a company of which P. E. Done is also a director. In June 2020, F. Done resigned as a director of PBSG. Irwell only underwrites business for the clients of PBSG and its subsidiary companies. Therefore, all premiums received and all claim payments are made via PBSG and its subsidiary companies. Cash settlement is made within 30 days of each month end. During the year, PBSG's subsidiary companies performed part of the administration services on behalf of the Company. These companies received a fee of £10,000 (2019: £10,000) and received commission paid by the Company totalling £7,097,000 (2019: £8,082,000) of which £3,032,000 (2019: £4,188,000) was owed at the year-end. They also received fees for claims handling expenses of £1,441,000 (2019: £1,462,000), which are included in claims paid.

On the 20 December 2018, a loan of £5million was made to Goldentree Financial Services PLC, a company of which F. Done is both the joint controlling party and a director and P. E. Done is a shareholder, at an annual rate of interest of 7%. Interest accrued and paid in the period to 31 March 2020 amounted to £250,300. On 18 December 2019 the loan was repaid in full.

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. System of Governance

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 three lines of defence model for its risk management, as follows:

First line of defence

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

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. 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.

B. System of Governance

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

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

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

The Irwell 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 our risk profile.

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.

B. System of Governance

ORSA Outcomes

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

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

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

- 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.

Irwell's Corporate Governance Framework recognises that management of the Company is in the hands of three executive directors and that there are no other employees. Four-eye review processes have therefore been established in order to mitigate the lack of segregation of duties at the operational level. Furthermore, the Company's business model involves outsourcing the key processes of underwriting and claims handling. The Company's internal control system therefore emphasises the

B. System of Governance

establishment of controls over, and regular monitoring of, these outsourced functions, particularly in respect of the reporting to the Company of premium and claims data.

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, and taking account of the Company's small size, 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. System of Governance

B.6 Actuarial function

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

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

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

The Actuarial function is responsible for the following areas:

- Coordinating the calculation of the technical provisions and reporting thereon;
- Assessing whether the methodologies and assumptions used in the calculation of the technical provisions are appropriate;
- Assessing data quality;
- Providing an underwriting policy opinion;
- Providing a reinsurance arrangements opinion, and
- Production of an Annual Actuarial Function Report.

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

B.7 Outsourcing

Irwell is a small insurance company run by a Board of directors and the AC and RC and operates a model whereby most of the services required are outsourced. While this creates additional risk, it enables the Company to operate in the most effective manner.

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 includes details on risk management and the contractual arrangements.

B. System of Governance

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

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

B.8 Any other information

The Company is satisfied that its system of governance, as outlined in B1-7 above, 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.

COVID-19

As mentioned in B1 and B7 above, Irwell operates a business model under which most services provided to the Company are outsourced. As a result, the three executive directors have always operated a working from home model and therefore the COVID-19 outbreak has not affected their day to day working lives. However, changes to the ways we interact with our outsource providers have occurred, with technological solutions such as video and tele-conferencing and remote access to IT systems being employed to enable us to continue to monitor their activities as necessary. Our intermediaries have continued to provide the necessary management information in a timely manner. Our actuarial and investment advisers have continued to provide the usual service. Board and board committee meetings are now being held by video conference.

C. Risk Profile

Summary of risk profile

Irwell's business model has remained constant over the reporting year as a specialist underwriter of legal protection and accountants' tax fee protection risks. Irwell takes a prudent approach to risk management, focusing on its niche area of underwriting expertise, writing short-tail risks with low catastrophe exposure. 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 and the Republic of Ireland. The business is sourced via four authorised intermediaries who act under a delegated risk transfer agreement for underwriting and a claims handling contract for claims. Underwriting risks are assessed as follows:

- Levels of business written, the sources of that business and detailed claims information are recorded using management information received from the intermediaries on a monthly basis. This information is used to monitor the performance of the business and the level of reserves required.
- The adequacy of premium income to cover expected claims and expenses is the responsibility of the Board based on recommendations from the Underwriting and Claims Director 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.
- 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.

C. Risk Profile

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:

- All intermediaries are related parties;
- We regularly review our policy wordings and update them as necessary;
- Any variation to the agreed rates must be approved by the Underwriting and Claims Director;
- Irwell has the ability to change premium and/or commission rates at short notice in the event of a deterioration in loss ratios;
- The Company performs regular reviews of the intermediaries underwriting records to ensure that they adhere to the terms of the delegated underwriting authority;
- The intermediaries are subject to regular audit from the internal auditor.

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 its premium and claims reserves are not sufficient to meet its insurance liabilities. This is influenced by both the frequency and the severity of claims.

This risk is mitigated by:

- All contracts are written on a claims-made basis;
- Regular reviews of our 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.

Catastrophe risk and reinsurance risk

The business written by Irwell consists 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 therefore consider that the Company is not exposed to accumulation of losses due to catastrophic events. As a result, we do not purchase catastrophe reinsurance. This is a decision that is regularly reviewed and confirmed.

Lapse risk

The Company's lapse risk is not significant.

C. Risk Profile

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. The Company sources business through four intermediaries, who are members of the same group, and as a result of this the Company has a concentration of business around a single key business partner. This risk has been identified and recorded in the Company's risk register. This concentration risk is mitigated by detailed and ongoing monitoring of the intermediaries. A further mitigation of this risk is the financial strength of PBSG which is monitored by Irwell on a continuous basis.

Risk sensitivity relating to underwriting risk

At 31 March 2020, non-life underwriting risk accounted for 83% (2019: 69%) of our undiversified SCR.

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

Material Change

COVID-19

We have considered the potential effect of COVID-19 on our underwriting risk. As mentioned in A2 above, we do not write the types of general insurance policies that are directly exposed to COVID-19 related risks. The business that Irwell underwrites comprises tax fee protection risks and employment related risks. In respect of tax fee protection business, we expect to see a temporary reduction in claims as HMRC prioritise dealing with administration of the government's coronavirus response, with a consequent reduction in tax enquiry work. In respect of employment business, we do not think that the pandemic widens the risks that we cover. Our policy does not cover any monetary difference between an employee's pay and the amount received under the Coronavirus Job Retention Scheme ('CJRS'); nor does it cover any failure to administer the scheme correctly. Our policy does cover unfair dismissal claims, provided the client takes and follows our advice, so it is possible that future claim frequency could increase and this will be monitored carefully. However, the CJRS will greatly assist the ongoing employment situation in the UK.

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

C. Risk Profile

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. We have a short-dated investment portfolio with an average duration at 31 March 2020 of 2.12 (2019: 1.73) years. This feature of our portfolio mitigates the interest rate risk. In addition, derivatives may be used to manage the duration of the portfolio, although there were no derivatives in place at the year-end. At 31 March 2020, interest rate risk accounted for 0.1% (2019: 1%) of our undiversified SCR.

Spread risk

Spread risk is the risk that the value of investments will decline due to changes in credit spreads. Credit spreads are narrower for higher rated securities. The risk is therefore mitigated by Irwell specifying in its investment policy the minimum ratings that must apply to different categories of securities both in terms of individual issuers and in terms of the portfolio as a whole. In 2018 the company's investment policy was revised to allow a proportion of our portfolio to comprise BBB rated securities which has increased our spread risk. At 31 March 2020, spread risk accounted for 8% (2019: 4%) of our 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 our investment portfolio managed by JSS for Irwell is minimal.

As mentioned in B1 above, in December 2018 a loan of £5million was made to Goldentree. This loan attracted a high capital charge, with the result that concentration risk at the previous year-end accounted for 19% of our undiversified SCR. This loan was repaid in December 2019, with the result that there is no such capital charge at 31 March 2020.

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 we have a low risk, well diversified portfolio of investment assets which is fully compliant with the prudent person principle. In particular:

- The average short duration of the investments matches the short-tail nature of the insurance business written by the Company. This ensures that the assets held to cover the technical provisions are invested in a manner appropriate to the nature and duration of the insurance liabilities and in the best interest of all policyholders.

C. Risk Profile

- 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.
- Although Irwell writes a small amount of business in the Republic of Ireland, the premiums are paid to the Company in sterling. Claims are similarly paid in sterling. Therefore currency of the asset and liability base is appropriately matched being fully in sterling.
- 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 8% (2019: 23%) of the Company's undiversified SCR at 31 March 2020.

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

Material change

Concentration risk

The repayment of the Goldentree loan has had a material effect on the market risk component of the SCR (see concentration risk above).

COVID-19

The effect of COVID-19 on our investment portfolio during the year and in the subsequent period is discussed in A3 above. Going forward, we expect corporate bond markets to remain supported by central bank asset purchases. So far, the Bank of England has pledged to expand purchases by a further £200bn but this could be enlarged even further. This, coupled with abundant liquidity and zero interest rates will continue to support the asset class in coming months. The main risk to our constructive outlook is a resurgence of the virus in the latter part of 2020 leading to renewed lockdown measures.

C.3 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Irwell is exposed to credit risk in relation to overdue premium debtors (type 2 counterparties) and in respect of deposits with banks (type 1 counterparties). Investment credit risk is dealt with in C2 (Market Risk) above. The Company does not purchase reinsurance and therefore credit risk relating to amounts due from reinsurers does not apply.

C. Risk Profile

Measures used to assess risk

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

Amounts due from intermediaries

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

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

We have granted a credit period before premiums received by the intermediaries are payable to Irwell and adherence to these credit terms is carefully monitored and controlled. Therefore, at any valuation date, a very small amount, if any, of our premium debtors are past due and consequently are included in technical provisions for solvency purposes and no capital charge is applied. At 31 March 2020, the credit risk relating to amounts due from intermediaries amounted nil (2019: nil).

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 2020, credit risk relating to deposits with banks (type 1 counterparty risk) accounted for 3% of our undiversified SCR (2019: 3%).

Material change

There has been no material change in the year to the credit risks that the Company is exposed to or the measures used to assess those risks. We do not consider that COVID-19 has impacted these risks.

C. Risk Profile

C.4 Liquidity risk

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

Measures used to assess risk

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

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

Liquidity risk exposure

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

C. Risk Profile

Expected profit in future premiums

The expected profit included in future premiums is £3,183k (2019: £2,820k), calculated in accordance with Article 260(2).

Prudent person principle

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

Risk sensitivity relating to liquidity risk

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

Material change

There has been no material change in the year to the liquidity risks that the Company is exposed to or the measures used to assess those risks. We do not consider that COVID-19 has impacted our liquidity risk.

C.5 Operational risk

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

- Outsourcing
- People – dependence on three executive directors
- Systems – reliance on intermediaries IT systems
- 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

The critical functions of underwriting and claims handling are delegated to the Company's four intermediaries.

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

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

C. Risk Profile

People – dependence on three executive directors

With the critical functions of underwriting and claims handling being outsourced, the Company is reliant on its three executive directors for the management of the Company and its efficient functioning. Service contracts have been issued with sufficiently long periods of notice to ensure a smooth transition if personnel were to change.

Systems – reliance on intermediaries' IT systems

There is IT systems risk because of reliance on PBSG IT systems. This risk is mitigated by the historical reliability of the systems, the programme of continual improvement and a robust off site back up and disaster recovery process that is in place. A further mitigation is that the company has initiated a joint project with its intermediaries to develop an in-house underwriting database which will provide a greater measure of control over the company's underwriting data.

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 delegation to our intermediaries of the underwriting and claims handling functions, Irwell has a heavy dependence on its intermediaries for maintaining our reputation with policyholders. Our proactive monitoring of the performance of our intermediaries includes the regular review of our reputational risk, including the monitoring of customer service in line with the FCA's principles for treating customers fairly.

Complaints management is also a key area in maintaining our reputation. Whilst the day to day management of complaints is dealt with by the intermediaries, complaints are referred promptly to Irwell as it our responsibility to ensure they are investigated and appropriately brought to a conclusion. We have a very low level of complaints.

Risk sensitivity relating to operational risk

Operational risk represents 6% of the Company's undiversified SCR at 31 March 2020 (2019: 5%).

C. Risk Profile

Material change

Other than changes to our operational processes in response to the coronavirus crisis, discussed at B6 above, there has been no material change in the year to the operational risks that the Company is exposed to or the measures used to assess those risks.

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. We have also performed reverse stress testing. Underwriting risk and market risk together account for 91% (2019: 92%) of the Company's risk profile and therefore these are the risk areas where our 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. We have concluded that the standard formula gives a higher capital charge for non-life underwriting risk than is indicated by our own analysis. This is because the standard formula does not fully take account of some of the specific characteristics of our business. Because our employers' policy covers awards at employment tribunals, a proportion of our business is categorised as general liability business. The factors applied to this business in the standard formula do not adequately take into account the low policy limits we have in place, nor does it account for the caps placed on awards by employment tribunals. As discussed in C1 above, the Company's catastrophe exposure is low due to the policy limits we have in place.

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 our investment portfolio is low risk in terms of asset type, duration and diversification.

COVID-19

Underwriting risk

As mentioned at C1 above, we do not consider that COVID-19 will have any effect on our tax fee protection business, but there is a possibility that claim frequency could increase in our employment business. Because all business is written on a claims made basis, any increase in claims frequency would only affect future periods. We have performed stress testing in this regard and have concluded that even in the extreme scenario of a doubling of claims incidence the Company would remain profitable due to the offset effect of a reduction in profit commission payable.

C. Risk Profile

Market risk

As stated at A3 and C2 above, Irwell's investment portfolio is low risk in terms of asset type, duration and diversification. Although our portfolio suffered a fall in value in March 2020 due to the coronavirus pandemic, it has largely recovered post year-end. Nevertheless, we have modelled some scenarios based on historical market crises and have concluded that they produce losses that the Company can easily absorb in its capital buffer with no threat to the Company's solvency position.

Future developments

Over the coming months we intend to evaluate the legal expenses insurance market with a view to broadening our product range and seeking out intermediaries outside of PBSG. The detailed planning in respect of this initiative has yet to be performed.

D. Valuation for Solvency Purposes

D.1 Assets

D1.1 Assets at 31 March 2020:

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

D1.1a Assets at 31 March 2019:

	Financial statements valuation	Reanalysis for solvency	Solvency valuation adjustments	Solvency valuation
	£'000	£'000	£'000	£'000
Government and corporate bonds	26,746	337		27,083
Amounts due from intermediaries	3,364			3,364
Loans	5,000			5,000
Amounts due from intermediaries	10,825	(10,825)		-
Deferred tax asset	-		63	63
Cash at bank	6,413			6,413
Deferred acquisition costs	2,887		(2,887)	-
Accrued interest	337	(337)		-
Total assets	55,572	(10,825)	(2,830)	41,923

D. Valuation for Solvency Purposes

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. As explained in A3 above, the Company did not hold a futures contract at the balance sheet date.
- Loans are initially measured at cost, being the fair value of the consideration paid for the acquisition of the investment, and subsequently measured at amortised cost using the effective interest rate method. As explained under related party transactions in B1 above, the loan of £5million to Goldentree that was on the prior year balance sheet was repaid in full in December 2019.
- 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.
- 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 is 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.
- Deferred acquisition costs (DAC) comprise acquisition costs that are attributable to premiums unearned at 31 March 2019. 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. Valuation for Solvency Purposes

D.2 Technical Provisions

D2.1 Technical provisions at 31 March 2020:

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

D2.1a Technical provisions at 31 March 2019:

Line of business	Claims provision	Premium provision	Risk margin	Total technical provisions
	£'000	£'000	£'000	£'000
Third party liability	3,247	(760)	251	2,738
Legal expenses	11,609	(1,828)	2,143	11,924
Total	14,856	(2,588)	2,394	14,662

D2.2 Solvency valuation

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

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

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

Claims provision losses for CTW have been set using a variety of methodologies across the various reporting years. For all reporting years up to 2016/17, reserves have been set on the basis of case estimates, since incurred chain ladder projections indicate no further development. For the 2017/18 reporting year, the claims reserve has been set on the basis of incurred chain ladder projections supplemented by actuarial judgement. Case estimates for more recent years have been revised a number of times and as a result projections of incurred data are not regarded as sufficiently reliable. Reserves for the 2017/18 reporting year are selected based on chain ladder projections of paid claim data. For the 2018/19 reporting year, a paid Bornhuetter-Ferguson methodology has been employed.

D. Valuation for Solvency Purposes

Since the 2019/20 year is the most immature and the development patterns have been impacted by volatility in incurred data in the more recent years, the claims provision for this year has been estimated using an average cost per claim methodology.

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

Both the claim and premium provisions are required to include all future expenses that will be incurred in servicing all existing business including any expected profit commission that will be generated by business that has not yet expired. All future expenses have been derived from the forecasts that are produced as part of the Company's business planning process.

Both claim and premium provisions include an estimate for events not in data (ENID). The methodology used to set ENID loadings is based on a volatility benchmark and an industry standard "truncated distribution" method.

Amounts due from intermediaries, comprising premiums receivable in respect of existing policies, the related commission creditors, profit 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 EIOPA's risk free spot rate.

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

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

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

- When projecting future claims, it is necessary to make some assumptions regarding the future claims development. There is always inherent uncertainty in estimating future liabilities since events and circumstances will not occur exactly as predicted.
- A significant amount of judgement is applied in establishing claims provisions, making their estimation inherently uncertain. Judgement is applied both in establishing case estimates and in interpreting historical data in the process of projecting ultimate claims. However, the level of uncertainty is moderated due to the fact that all business is written on a claims made basis. This means that no pure IBNR is required although it is necessary to consider the need for an IBNER.
- For employment business, there is uncertainty as to the number of claims that will proceed to tribunal. For all business, there is inherent uncertainty as to the rate of claims development. A slower development pattern than that anticipated will result in adverse development.
- As the Company has only been writing business introduced by CG since 2016, the data available is limited, which increases the uncertainty attached to the technical provisions for this business.
- We have low policy limits in place. PBS, BHR and CG claims severity is affected by the cap in place on the amount that can be awarded at an employment tribunal. CTW claims severity is

D. Valuation for Solvency Purposes

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 our catastrophe exposure is low.

- 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.

D. Valuation for Solvency Purposes

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 2020	Third party liability	Legal expenses	Total
	£'000	£'000	£'000
Claims provision			
UK GAAP claims provisions	2,761	12,537	15,298
Removal of prudence margin	(169)	(422)	(591)
Reallocation of claims creditors	38	911	949
Reallocation of profit commission creditor	317	278	595
ENID	74	459	533
Expenses adjustment	99	565	664
Discounting	(21)	(183)	(204)
Claims provision per solvency valuation	3,099	14,145	17,244
Premium provision			
UK GAAP UPR	2,831	9,003	11,834
Removal of DAC	(220)	(2,467)	(2,687)
Removal of profit on UPR	(1,419)	(2,067)	(3,486)
Bound but not incepted business	(4)	(152)	(156)
Reallocation of premium debtors	(2,620)	(9,018)	(11,638)
Reallocation of commission creditors	160	2,092	2,252
ENID	35	139	174
Expenses adjustment	32	185	217
Future profit commission	371	393	764
Discounting	(14)	(66)	(80)
Premium provision per solvency valuation	(848)	(1,958)	(2,806)
Risk margin	263	1,989	2,252
Total technical provisions per solvency valuation	2,514	14,176	16,690
at 31 March 2019	Third party liability	Legal expenses	Total
	£'000	£'000	£'000
Claims provision			
UK GAAP claims provisions	2,511	9,316	11,827
Removal of prudence margin	(248)	42	(206)
Reallocation of claims creditors	111	862	973
Reallocation of profit commission creditor	759	982	1,741
ENID	37	318	355
Expenses adjustment	116	443	559
Discounting	(39)	(354)	(393)
Claims provision per solvency valuation	3,247	11,609	14,856
Premium provision			
UK GAAP UPR	2,394	8,658	11,052
Removal of DAC	(206)	(2,681)	(2,887)
Removal of profit on UPR	(1,003)	(1,644)	(2,647)
Bound but not incepted business	(7)	(202)	(209)
Reallocation of premium debtors	(2,220)	(8,605)	(10,825)
Reallocation of commission creditors	149	2,298	2,447

D. Valuation for Solvency Purposes

ENID	19	117	136
Expenses adjustment	46	176	222
Future profit commission	85	180	265
Discounting	(17)	(125)	(142)
Premium provision per solvency valuation	(760)	(1,828)	(2,588)
Risk margin	251	2,143	2,394
Total technical provisions per solvency valuation	2,738	11,924	14,662

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

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

D2.5 Other matters

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

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

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

D. Valuation for Solvency Purposes

D.3 Other liabilities

D3.1 Other liabilities at 31 March 2020:

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

D3.1a Other liabilities at 31 March 2019:

	Financial statements valuation	Reanalysis for solvency purposes	Solvency valuation adjustments	Solvency valuation
	£'000	£'000	£'000	£'000
Insurance creditors	5,161	(5,161)	-	-
Other creditors	4,265	-	-	4,265
Accruals	55	-	-	55
Total	9,481	(5,161)		4,320

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.

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 2019, other creditors include a liability of £3,364k in respect of a derivative financial liability, which was valued at fair value through profit and loss. A futures contract for the same value was included in assets at 31 March 2019 above.

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.

D. Valuation for Solvency Purposes

D.4 Alternative methods for valuation

Not applicable.

D.5 Any other information

COVID-19

Our investment portfolio was affected by the COVID-19 market falls in the month of March with a consequent impact on the solvency valuation at 31 March 2020. Since the year end, the majority of that fall has reversed. As at the end of May 2020, the value of our portfolio has increased by some £700k since the year end to £32.6m and our overall investment return over these 2 months is 2.11%.

Covid-19 has had no effect on the valuation for solvency purposes of any other of the Company's assets and liabilities.

Other information

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

E. Capital Management

E.1 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	2020	2020	2019	2019
		£'000	%	£'000	%
Ordinary share capital	1	4,000	18.6	4,000	17.4
Reconciliation reserve	1	17,474	81.3	18,878	82.3
Sub-total Tier 1		21,474	99.9	22,878	99.7
Deferred tax asset	3	17	0.1	63	0.3
Total own funds		21,491	100	22,941	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.

In January 2020, an interim dividend of £3m (2019: nil) was paid. No final dividend has been declared for the year ended 31 March 2020 (2019: nil).

Only tier 1 items totalling £21,474k (2019: £22,878k) are available to cover the MCR.

There are no restrictions regarding the availability of own funds.

E. Capital Management

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:

	2020	2019
	£'000	£'000
Shareholders' equity in the UK GAAP financial statements	21,561	23,212
Adjust technical provisions to best estimate	1,881	1,525
Risk margin	(2,252)	(2,394)
Discounting of technical provisions	284	535
Deferred tax asset	17	63
Total own funds	21,491	22,941

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 2020, the SCR was £11,072k (2019 £12,837k).

The SCR was determined using the standard formula, and is summarised as follows:

	2020	2019
	£'000	£'000
Market risk	955	3,613
Counterparty default risk	357	493
Non-life underwriting risk	10,177	10,761
Diversification	(846)	(2,428)
Total Basic SCR	10,643	12,439
Operational risk	745	793
Deferred tax adjustment	(316)	(395)
Total SCR	11,072	12,837

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

E. Capital Management

E2.2 MCR

At 31 March 2020, the MCR was £3,579k (2019: £3,428k).

Inputs used by the Company to calculate the MCR were as follows:

Line of business	Technical provisions		Written premiums in last 12 months	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Third-party liability	2,251	2,487	4,289	4,526
Legal expenses	12,187	9,781	21,335	22,325
Total	14,438	12,268	25,624	26,851

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 £3,187k as at 31 March 2020 (2019: £3,288k).

E2.3 Analysis of change

The Company's solvency capital requirement has reduced over the year. As explained in B1 above, under related party transactions, a loan of £5million to Goldentree was repaid in December 2019. The release of the associated capital charge comprises a significant part of the decrease in the market risk of the SCR. The principal reason for the reduction in the non-life underwriting element of the SCR relates to a recalibration this year of the standard formula for premium and reserve risk.

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 in the calculation of the Solvency Capital Requirement

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. Capital Management

E.6 Any other information

At 31 March 2020, the Company's solvency surplus was £10,419k (2019: £10,104k), giving a capital ratio of 194% (2019: 179%).

The movement in the surplus is analysed as follows:

	2020	2019
	£'000	£'000
Solvency surplus at 1 April	10,104	8,615
Generated from operating activities	1,549	2,456
Dividend paid	(3,000)	-
Decrease/(increase) in SCR	1,766	(967)
Solvency surplus at 31 March	10,419	10,104

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

Annex - Quantitative reporting templates

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

Assets

		Solvency II value
		C0010
Intangible assets	R0030	
Deferred tax assets	R0040	17
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	34,330
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	30,813
Government Bonds	R0140	5,205
Corporate Bonds	R0150	25,608
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	3,517
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	
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	4,564
Any other assets, not elsewhere shown	R0420	38
Total assets	R0500	38,949

Annex - Quantitative reporting templates

Annex I

S.02.01.02

Balance sheet

Liabilities

Technical provisions – non-life

Technical provisions – non-life (excluding health)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions - health (similar to non-life)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions - life (excluding index-linked and unit-linked)

Technical provisions - health (similar to life)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions – life (excluding health and index-linked and unit-linked)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions – index-linked and unit-linked

TP calculated as a whole

Best Estimate

Risk margin

Contingent liabilities

Provisions other than technical provisions

Pension benefit obligations

Deposits from reinsurers

Deferred tax liabilities

Derivatives

Debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions

Insurance & intermediaries payables

Reinsurance payables

Payables (trade, not insurance)

Subordinated liabilities

Subordinated liabilities not in BOF

Subordinated liabilities in BOF

Any other liabilities, not elsewhere shown

Total liabilities

Excess of assets over liabilities

	Solvency II value
	C0010
R0510	16,690
R0520	16,690
R0530	
R0540	14,438
R0550	2,252
R0560	
R0570	
R0580	
R0590	
R0600	
R0610	
R0620	
R0630	
R0640	
R0650	
R0660	
R0670	
R0680	
R0690	
R0700	
R0710	
R0720	
R0740	
R0750	
R0760	
R0770	
R0780	
R0790	
R0800	
R0810	
R0820	
R0830	
R0840	768
R0850	
R0860	
R0870	
R0880	
R0900	17,458
R1000	21,491

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	4,289	21,335	25,624
Gross - Proportional reinsurance accepted	R0120			
Gross - Non-proportional reinsurance accepted	R0130			
Reinsurers' share	R0140			
Net	R0200	4,289	21,335	25,624
Premiums earned				
Gross - Direct Business	R0210	3,852	20,990	24,842
Gross - Proportional reinsurance accepted	R0220			
Gross - Non-proportional reinsurance accepted	R0230			
Reinsurers' share	R0240			
Net	R0300	3,852	20,990	24,842
Claims incurred				
Gross - Direct Business	R0310	1,266	12,843	14,109
Gross - Proportional reinsurance accepted	R0320			
Gross - Non-proportional reinsurance accepted	R0330			
Reinsurers' share	R0340			
Net	R0400	1,266	12,843	14,109
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	1087	8,174	9,261
Other expenses	R1200			
Total expenses	R1300			9,261

Annex - Quantitative reporting templates

Annex I

S.17.01.02

Non-life Technical Provisions

Technical provisions calculated as a whole

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole

Technical provisions calculated as a sum of BE and RM

Best estimate

Premium provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Premium Provisions

Claims provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Claims Provisions

Total Best estimate - gross

Total Best estimate - net

Risk margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - total

Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

	Direct business and accepted proportional reinsurance		Total Non-Life obligation
	General liability insurance	Legal expenses insurance	
	C0090	C0110	C0180
R0010			
R0050			
R0060	(848)	(1958)	(2,806)
R0140			
R0150	(848)	(1958)	(2,806)
R0160	3,099	14,145	17,244
R0240			
R0250	2,514	14,176	16,690
R0260	2,251	12,187	14,438
R0270	2,251	12,187	14,438
R0280	263	1,989	2,252
R0290			
R0300			
R0310			
R0320	2,514	14,176	16,690
R0330			
R0340	2,514	14,176	16,690

Annex - Quantitative reporting templates

Annex I

S.19.01.21

Non-life Insurance Claims Information

Total Non-Life Business

Accident year /
Underwriting year

Z0020	Accident year [AY]
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Gross Claims Paid (non-cumulative) (absolute amount)

Year	Development year										In Current year	Sum of years (cumulative)
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100		
Prior	R0100										10	
2010	R0160	2,944	4,684	1,570	989	-654	216	242	289	-24	-1	
2011	R0170	3,293	5,124	2,024	251	-62	613	44	99	2		
2012	R0180	4,201	4,844	1,136	649	256	237	-59	1			
2013	R0190	3,734	5,137	1,940	361	80	143	20				
2014	R0200	3,456	3,744	704	556	42	71					
2015	R0210	3,526	3,599	1,100	263	147						
2016	R0220	3,222	4,273	967	457							
2017	R0230	4,512	5,993	1,434								
2018	R0240	5,077	4,369									
2019	R0250	4,130										
Total	R0260										10,638	95,976

Annex - Quantitative reporting templates

Annex I

S.19.01.21

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	Development year										Year end (discounted data)		
		1	2	3	4	5	6	7	8	9	10 & +			
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290		C0300	
Prior	R0100											13	R0100	13
2010	R0160							226	164	74	44		R0160	43
2011	R0170						623	254	167	118			R0170	117
2012	R0180					753	326	226	200				R0180	199
2013	R0190				1,747	788	375	273					R0190	271
2014	R0200			1,703	674	510	367						R0200	365
2015	R0210		3,318	1,410	736	413							R0210	410
2016	R0220	3,875	3,430	2,372	1,814								R0220	1798
2017	R0230	7,374	4,882	2,913									R0230	2,887
2018	R0240	5,883	5,426										R0240	5,377
2019	R0250	5,868											R0250	5,764
Total													R0260	17,244

Annex - Quantitative reporting templates

Annex I

S.23.01.01

Own funds

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)
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings
- Subordinated mutual member accounts
- Surplus funds
- Preference shares
- Share premium account related to preference shares
- Reconciliation reserve
- Subordinated liabilities
- An amount equal to the value of net deferred tax assets
- Other own fund items approved by the supervisory authority as basic own funds not specified above

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

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

- Unpaid and uncalled ordinary share capital callable on demand
- Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
- Unpaid and uncalled preference shares callable on demand
- A legally binding commitment to subscribe and pay for subordinated liabilities on demand
- Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
- Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
- Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	4,000	4,000			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	17,474	17,474			
R0140					
R0160	17				17
R0180					
R0220					
R0230					
R0290	21,491	21,474			17
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					

Annex - Quantitative reporting templates

Other ancillary own funds
Total ancillary own funds
Available and eligible own funds
 Total available own funds to meet the SCR
 Total available own funds to meet the MCR
 Total eligible own funds to meet the SCR
 Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

Excess of assets over liabilities
 Own shares (held directly and indirectly)
 Foreseeable dividends, distributions and charges
 Other basic own fund items
 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business
 Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

R0390					
R0400					
R0500	21,491	21,474			17
R0510	21,474	21,474			
R0540	21,491	21,474			17
R0550	21,474	21,474			
R0580	11,072				
R0600	3,579				
R0620	1.94				
R0640	6.00				

	C0060	
R0700	21,491	
R0710		
R0720		
R0730	4,017	
R0740		
R0760	17,474	
R0770		
R0780	3,183	
R0790	3,183	

Annex - Quantitative reporting templates

Annex I

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
Market risk	R0010 955		
Counterparty default risk	R0020 357		
Life underwriting risk	R0030		
Health underwriting risk	R0040		
Non-life underwriting risk	R0050 10,177		
Diversification	R0060 (846)		
Intangible asset risk	R0070		
Basic Solvency Capital Requirement	R0100 10,643		

Calculation of Solvency Capital Requirement

	C0100
Operational risk	R0130 745
Loss-absorbing capacity of technical provisions	R0140
Loss-absorbing capacity of deferred taxes	R0150 (316)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160
Solvency capital requirement excluding capital add-on	R0200 11,072
Capital add-on already set	R0210
Solvency capital requirement	R0220 11,072
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

Approach to tax rate

Approach based on average tax rate

	Yes/No
	C0109
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 -316
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 -316
LAC DT justified by carry back, future years	R0680 0
Maximum LAC DT	R0690 17

Annex - Quantitative reporting templates

Annex I

S.28.01.01

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

Medical expense insurance and proportional reinsurance
Income protection insurance and proportional reinsurance
Workers' compensation insurance and proportional reinsurance
Motor vehicle liability insurance and proportional reinsurance
Other motor insurance and proportional reinsurance
Marine, aviation and transport insurance and proportional reinsurance
Fire and other damage to property insurance and proportional reinsurance
General liability insurance and proportional reinsurance
Credit and suretyship insurance and proportional reinsurance
Legal expenses insurance and proportional reinsurance
Assistance and proportional reinsurance
Miscellaneous financial loss insurance and proportional reinsurance
Non-proportional health reinsurance
Non-proportional casualty reinsurance
Non-proportional marine, aviation and transport reinsurance
Non-proportional property reinsurance

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
R0020		
R0030		
R0040		
R0050		
R0060		
R0070		
R0080		
R0090	2,251	4,289
R0100		
R0110	12,187	21,335
R0120		
R0130		
R0140		
R0150		
R0160		
R0170		

Linear formula component for life insurance and reinsurance obligations

	C0040
MCR _L Result	R0200

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

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	C0050	C0060
R0210		
R0220		
R0230		
R0240		
R0250		

Overall MCR calculation

Linear MCR	R0300 3,579	
SCR	R0310 11,072	
MCR cap	R0320 4,891	
MCR floor	R0330 2,768	
Combined MCR	R0340 3,579	
Absolute floor of the MCR	R0350 3,187	
-	-	C0070
Minimum Capital Requirement	R0400 3,579	