FM Insurance Company Limited

Solvency and Financial Condition Report

2019

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Summary

Current year performance

The principal activities of FM Insurance Company Limited ("FMI" and the "Company") during the year continued to be the underwriting of property insurance risks and the provision of related engineering and loss prevention services to large and medium sized clients in the UK and Switzerland.

In conjunction with the transition of the EEA business in mainland Europe to FMIE, FMI undertook a review focused on improving the profitability of the Company's book of business. Amongst other matters it focused upon enhancing the quality of the book of business which resulted in the loss of several higher-risk profile clients, reducing the overall premium written in the year. In 2019 gross premium written decreased from £170m to £159m (6.5%). As a result of the strategic steps taken during the year the Company is in a strong position from which to grow the book of business as we move through 2020.

The net loss ratio stayed comparable with 2018 at 60.6% for the year (2018: 60.9%) and the expense ratio was 64.6% (2018: 11.5%) including a foreign exchange loss of £22m (2018: gain of £39m). The loss ratio, subject to a cap under the stop loss treaty with Factory Mutual Insurance Company (FMIC), was primarily attributable to one significant loss event; there were no significant large loss events during 2018. Realised and unrealised gains on investments amounted to £60m (2018: £47m loss) as a result of the general movements in equity market valuations.

The profit for the year of £50m and other movements described in the consolidated statement of comprehensive income in the 2019 UK GAAP consolidated financial statements ("UK GAAP FS") resulted in an overall increase in consolidated shareholder's funds of £51m (Company: £51m) resulting in total shareholder's funds of £669m (Company: £665m) as at 31 December 2019.

2019 Solvency and financial condition

A risk appetite framework is in place which highlights the key risks to FMI and provides a way of monitoring the tolerances and limits on a regular basis. The Risk Management Committee ("RMC") regularly reviews the status of this framework and is responsible for putting into place action plans as required. The framework is used to determine the key risk areas that are required to be incorporated in the capital modelling. The results are fed back into the framework to verify the limits and tolerances remain appropriate.

The main risk areas which affect FMI are:

- Underwriting risk due to the nature of the business; and
- Market risk due to the amount of equity securities held.

Additional risk categories included in the solvency calculation are credit risk and operational risk, which are prescribed risk categories but are not significant factors in the FMI calculation.

Group risk is not included as a separate element of the solvency calculation as the failure of FMI's parent, FMIC, does not fall within the 99.5% confidence level. The "AA" (Very Strong) Fitch rating, "A+" (Superior) A.M. Best rating and "A+" (Strong) Standard & Poor's rating of FMIC indicate that the likelihood of default is significantly more than the one in 200-year scenario used for the solvency calculation. However, group risk is still included in FMI's risk register and monitored regularly by FMI's senior management and Board.

Capital management

The 2019 capital modelling process for FMI included the standard formula ("SF") calculation and an internal calculation used for the Own Risk and Solvency Assessment ("ORSA"). A summary of the SF model including the capital requirement and solvency coverage is reflected in the table below:

	2019 SF £000s	2018 SF £000s	Variance £000s
Eligible own funds	655,156	593,991	61,165
Solvency capital requirement (SCR)	352,041	306,976	45,065
Surplus	303,115	287,015	16,100
Coverage of SCR[1]	*186.1%*	*193.5%*	*(7.4%)*

A more detailed breakdown of the capital modelling results, by risk type, is included later in this report.

The increase in eligible own funds is largely as a result of the gains made on investments (realised gains of £15m and unrealised gains of £45m) during the year.

The increase in the SCR is driven mainly by the purchase of over £100m of additional equities in the year which increased the market risk charge.

Overall coverage of the SCR has fallen as the increase in risk is a larger proportion of the total (14.7%) than the increase in available funds (10.3%).

The method of calculation for the SF is set out in the Commission Delegated Regulations (Delegated Acts) which are devised by the European Commission. There is no ability to adjust the core calculation, except for simplification options in some of the individual risk elements, most of which are not appropriate for FMI. However, FMI do use a simplification for the risk margin calculation. Due to the limited opportunities to tailor the calculation, FMI is unable to fully incorporate into the SF the total benefit of the stop loss treaty with FMIC. It is applied only within the catastrophe risk calculations, as mitigating reinsurance. The capital charge therefore understates the benefit the stop loss treaty would provide to FMI in a volatile calendar year capping the combined ratio at 125%. Management understand the SCR calculated using the SF is conservative but agree it is appropriate. FMI continues to have adequate capital coverage in respect of the SCR (186%) despite this significant conservatism.

The ORSA filed with the PRA in 2019, in respect of the 2018 year end, had a capital charge of £113m (2018: £127m) which is measured against available funds of £614m (2018: £622m) under UK GAAP to give coverage of 543% (2018: 490%).

The ORSA calculation is designed by FMI to focus on the main risk areas for the type of business written. It covers the same main risk areas as the SF but treats some of the elements differently to better represent how the business functions. The most significant driver behind the different capital requirement compared to the SF is investments. The ORSA does not model the balances invested in equities due to them being free/excess assets as the combined cash and bond balances held are sufficient to cover the capital requirement.

[1] Cover of SCR calculated as eligible own funds divided by SCR

Capital coverage under the SF is lower than the ORSA, however management are comfortable with the SF capital coverage due to the Company's approach to managing capital. This involves managing assets, liabilities and risks in a coordinated way, and taking appropriate action to maintain the capital position of the Company in light of changes in economic conditions and risk characteristics. Management understand the underlying reasons for the higher charge are in respect of the stop loss cover with FMIC being restricted, together with the charge relating to the equity risk not being included in the ORSA calculation (as there are sufficient bonds and cash to cover the capital charge).

All balances used within this report are determined according to the valuation rules set out in the Delegated Acts.

Sensitivity tests and stress and scenario testing have been performed and overseen by the RMC on both the ORSA and SF models, to ensure management and the Board are aware of the key drivers and sensitivities of the capital models.

Outlook for 2020

The transition of the EEA business in mainland Europe to FMIE is now fully completed and is not anticipated to have any further effect on the business results in 2020. From 1 January 2020 the business written through the Switzerland branch will transition to FMIE on a renewal basis. In 2019 the gross written premium of the Switzerland branch was £17.9m. FMI is committed to growing the UK business and has set achievable and sustainable goals to attain this.

The Company are actively monitoring developments related to the Covid-19 (Coronavirus) pandemic and will take appropriate safeguarding steps to mitigate impacts to the business and its stakeholders both in the short and longer term.

The Company is currently operating under its business continuity plan and is successfully maintaining business operations under an established system of governance. The Company has modified how it is conducting business with our clients, working with them on how to manage idle facilities, using remote engineering capabilities when in-person site visits are not possible, and developing renewal options. Furthermore, the Company has written new business in the current environment which demonstrates the strength of the business and our focus on strong client relationships.

Following the transition of the EEA business the market focus of the Company is on the UK.

The Company expects to remain fully compliant with both the MCR and SCR requirements and continues to monitor its solvency position against internal guidelines on a monthly basis. Due to the decline in investment market values during the first quarter of 2020 the Company expects a significant short-term decrease in market risk. This decrease will be largely offset by a reduction in the eligible capital.

Open communication is occurring at an FMI Board level, with the Board receiving regular updates from the FM Global Group CEO on the corporate actions which have been taken in response to Covid-19, and also copies of internal correspondence sent to all employees. In addition, the Company is in regular communication with the PRA providing updates, upon request, on business operations and the capital position, during this rapidly evolving situation.

In the area of market risk, the Company adopts a long-term view of risk and opportunities. The Company does not expect any significant changes to occur in the asset allocation approach as a result of this pandemic.

In addition to the above, the Company has a stop loss treaty in place under which the parent company will reimburse any losses and underwriting expenses in excess of the attachment point.

Finally, the anticipated effect of the Coronavirus on the Group is such that it will not impact upon its ability to support the Company.

Directors' report

Directors

The directors who held office during the year and to the date of this report were as follows:

Andrew Bryson	Managing Director (Appointed 1 January 2020)
Rachel Cope	Resigned 18 July 2019
Jonathan W. Hall	
Omar F. Hameed	
Kevin S. Ingram	
Christopher Johnson	Resigned 19 December 2019
Philip Johnson	
Thomas A. Lawson	
Natalie Spotswood	
Stefano Tranquillo	Resigned 23 September 2019
Colin R. Day	Appointed 18 July 2019
Thomas S. Keevil	
Peter C. Wilson	

Statement of Directors' responsibilities

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulation Authority (PRA) rules and Delegated Acts.

The PRA Rulebook for SII firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting Part requires that the Company must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that the Company must ensure that its SFCR is subject to approval by the directors.

Each of the directors, whose names are listed above, confirm that, to the best of their knowledge:

(a) Throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and Delegated Acts as applicable; and

(b) It is reasonable to believe that, at the date of the publication of the SFCR, the Company continues to comply, and will continue to comply in the future.

On behalf of the Board

K.S Ingram

Kevin S. Ingram
Director
28 May 2020

Auditor's report

Report of the external independent auditor to the Directors of FM Insurance Company Limited ('the Company') pursuant to Rule 4.1(2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion
Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019**:**

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2019, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01 and S.19.01.21; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of FM Insurance Company Limited as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the Directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter – Basis of Accounting & Restriction on Use
We draw attention to the 'Valuation for Solvency Purposes', 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other Information
The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report
The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx. The same responsibilities apply to the audit of the Solvency and Financial Condition Report.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1(3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP

Ernst & Young LLP
London
28 May 2020

The maintenance and integrity of the FM Insurance Company Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the web site.

A. Business and performance

A.1 Business

FMI is a UK company and a wholly owned subsidiary of FMIC. The EU branches of FMI in Belgium, France, Germany, Italy, the Netherlands, Spain and Sweden transitioned their business to FMIE during 2018 and are now in run-off. The insurance business of the Switzerland branch of FMI has started to transition to FMIE from 1 January 2020, as policies renew. Engineering services in countries where FMI is not licenced to transact insurance business are provided by FMI's wholly owned subsidiary, FM Engineering International Limited.

The business model for FM Global ("FMG"), the trade name of the group of consolidated companies including FMIC and FMI, is based on providing worldwide insurance coverage and FMI plays a key role in this. The FMI licence assists FMIC in insuring clients in locations where FMIC does not have a licence.

FMI writes commercial property insurance for multinational companies. FMI's aim is to continue to provide competitively priced insurance to multi-national companies based in the United Kingdom. FMI also aims to assist in servicing the needs of those clients headquartered throughout the world that have locations in the United Kingdom.

FMI has a stable book of business and there are no plans to expand into new lines of business. The Company will continue to provide insurance business using the current model however, the business is constantly looking to improve the service to its customers and thereby retain its clients.

The parent company, FMIC, is a mutual company which is owned by and accountable to its policyholders. This structure allows FMG to take a long-term strategic view, helping FMI to absorb and withstand volatility in operating results, which enables FMG to provide clients with a large, stable insurance capacity.

The FMG strategy is that 'the majority of loss is preventable' and by employing and utilising engineers and loss prevention specialists the Company aims to minimise the losses to clients and the impact of those losses should they occur. The business model has remained consistent since the incorporation of FMI in 1963.

Financial supervision of FMI is undertaken by the PRA while an external audit of the SCR, technical provisions and selected quantitative reporting templates ("QRTs") is performed by Ernst & Young ("EY") on an annual basis. Willis Towers Watson ("WTW") are contracted to complete a back testing and validations audit on the technical provisions on an annual basis.

Contact details for these entities can be found in the Appendices.

A.2 Underwriting performance

FMG is known as an insurer specialising in the highly protected risk ("HPR") market and is the main underwriter of this business. Clients are typically made up of Global 1000 companies that utilise and value the bundled professional services consisting of professional property engineering expertise, experienced property underwriting teams, inspection and loss control services, training and research.

FMI provides its policyholders with all-risk policies providing fire and extended coverage, boiler and machinery, difference in conditions, ocean cargo or any combination of these lines of coverage.

As noted above, the philosophy of FMI is that the majority of loss is preventable and as a result employs engineers to inspect insured's locations and work with them to minimise the risk of a loss occurring or, if it does, to minimise the impact to the insured. This partnership with the client is a key factor in the high retention of business year on year.

Each year the Company sets key result areas ("KRA"), in support of those of the wider FMG Group, to measure performance and to form the basis of the incentive scheme. The KRA's that the Company measures are:

- Combined Ratio;
- Premium Retention; and
- New Business.

Throughout the year management reports are measured against these KRA's and reported to staff so employees are aware of the progress of the Company in achieving its goals. For more details in relation to the KRAs see page 18.

During 2019 the Company recognised an underwriting loss, offset by realised and unrealised gains on investments. Premium income decreased from 2018, as a result of the final stages of the transition of business to FMIE. The premium retention for the year for non-transitioning business was 82.9% and new business was 3.8%. The premium retention percentage was driven by FMI focusing on retaining clients aligned with the ethos of FM Global and the decision to part company with some challenging and underperforming accounts.

The Company UK GAAP annual results have been provided below:

	2019 £000s	2018 £000s	Variance
Gross premium written	159,385	170,047	(10,662)
Net premium written	39,530	33,962	5,568
Gross premium earned	178,500	325,938	(147,438)
Net premium earned	42,276	79,459	(37,183)
Gross claims incurred	322,270	112,648	209,622
Net claims incurred	25,606	48,351	(22,745)
Gross loss ratio	181%	35%	146%
Net loss ratio	61%	61%	-
Net expenses	27,240	9,118	18,122
Expense ratio	64%	11%	53%
Combined ratio	125%	72%	53%
Investment (charges)/returns	76,837	(32,832)	109,669

FMI predominately insures commercial property, however a small volume of goods in transit are also covered at the clients' request. This makes up less than 5% of FMI's written premium.

The increase in gross claims is primarily attributable to there being one significant loss event in 2019, with there being no significant loss events during 2018. This loss has been mitigated by the high level of reinsurance that FMI has in place.

The increase in net expenses is due in part to a loss on foreign exchange of £22m in 2019 compared to a gain of £39m in 2018.

The table below shows an analysis of gross premium written, gross premium earned, gross claims incurred, gross operating expenses, reinsurance balances and the net assets by line of business, including the accepted business that relates to clients headquartered outside of the EEA known as assumed business:

2019	Gross premium written £000s	Gross premium earned £000s	Gross claims incurred £000s	Gross operating expenses £000s	Reinsurance balances £000s	Total £000s	Net assets £000s
Marine, Aviation and Transport	6,018	5,706	(4,751)	(2,711)	219	(1,537)	25,256
Fire and Other	150,010	139,342	(318,012)	(67,569)	231,192	(15,047)	629,557
Assumed	3,357	33,452	493	(1,512)	(27,142)	5,291	14,089
Total	**159,385**	**178,500**	**(322,270)**	**(71,792)**	**204,269**	**(11,293)**	**668,902**

The table above is included within note 2 on page 32 of the UK GAAP FS.

2018	Gross premium written £000s	Gross premium earned £000s	Gross claims incurred £000s	Gross operating expenses £000s	Reinsurance balances £000s	Total £000s	Net assets £000s
Marine, Aviation and Transport	4,023	8,923	(8,499)	(1,125)	(3,732)	(4,433)	14,618
Fire and Other	125,561	279,305	(103,881)	(35,126)	(123,596)	16,702	456,254
Assumed	40,463	37,710	(268)	(11,320)	(19,621)	6,501	147,032
Total	**170,047**	**325,938**	**(112,648)**	**(47,571)**	**(146,949)**	**18,770**	**617,904**

The underwriting policy and guidelines within FMI rely on the engineering assessments of clients and the expert knowledge and experience within the Company regarding the likelihood and severity of losses. The premium is based on the loss prevention reports and the clients' commitment to risk management as well as the potential exposures. FMI's key aim is to retain the current profitable client base whilst also focusing on profitable growth via new business. As such these are two of the key result areas referred to previously.

The following table reflects the gross written premium by geographic area:

	Direct £000s	Assumed £000s	2019 Total £000s
Resulting from contracts concluded:			
In the EU member state of its head office	136,013	3,195	139,208
In the other EU member states	2,106	162	2,268
In other countries	17,909	-	17,909
Total	156,028	3,357	159,385

The table above is included within note 2 on page 32 of the UK GAAP FS.

	Direct £000s	Assumed £000s	2018 Total £000s
Resulting from contracts concluded:			
In the EU member state of its head office	111,185	38,368	149,553
In the other EU member states	3,700	2,095	5,795
In other countries	14,699	-	14,699
Total	129,584	40,463	170,047

To mitigate the impact of claims on FMI there is a significant reinsurance program in place which incorporates treaty, facultative, captive and group reinsurance. Captives are used at the request of the client and, as required, additional facultative or in-house treaty reinsurance is utilised. If the risk exceeds the treaty limit, facultative reinsurance can also be purchased, within approved guidelines.

A.3 Investment performance

FMI invests primarily in equities and bonds, the majority of which are held in the US market[2]. The following table, included within note 10 on page 39 of the UK GAAP FS, reflects the equity and bond investments by type at fair value and cost:

	2019		2018	
	Fair Value £000s	Cost £000s	Fair Value £000s	Cost £000s
Equity investments	400,469	324,238	309,808	266,986
Debt securities	166,910	168,087	115,924	118,056
Total	567,379	492,325	425,732	385,042

In 2019 the USD to GBP rate fluctuated significantly leading to an overall increase in the value of FMI's investment portfolio as reported in GBP, in addition excess USD was utilised to purchase significant amounts of equities and bonds in December 2019. Looking ahead, FMI's investment strategy remains

[2] Some additional deposits are held in local currencies as required by local regulatory authorities

unchanged and the Company continues to hold a significant amount of equities. The management of FMI's investment portfolio is outsourced to FMIC, with oversight by the FMI Finance Manager, with the objective of strengthening the Company and Group's financial position and thereby the capacity to provide for the insurance needs of policyholders. These needs include stability and growth of policyholder surplus as well as liquidity to cover losses.

The following table, included within note 4 on page 33 of the UK GAAP FS, reflects the investment performance for the year:

	2019 £000s	2018 £000s
Net charge on defined benefit pension scheme	(497)	(395)
Net income from investments	16,884	14,757
Net interest paid on bank accounts and fixed deposits	-	(240)
Realised gain on investments	15,021	10,222
Investment income	31,408	24,344
Unrealised (loss)/gain on investments	45,429	(57,176)
Total investment return	76,837	(32,832)

The Company's investment strategy is to hold a diversified portfolio of investments to provide a good balance between higher risk items and lower risk items. FMI is a total return investor and believes over the longer-term, equity investments will generate higher returns than fixed income securities. The Company is aware this investment approach will generate short term volatility and accepts this risk.

A.4 Performance of other activities

The only costs excluded from the technical account are investment income, unrealised gains and losses on investments, and other finance charges.

There are no anticipated major costs in the future planning period.

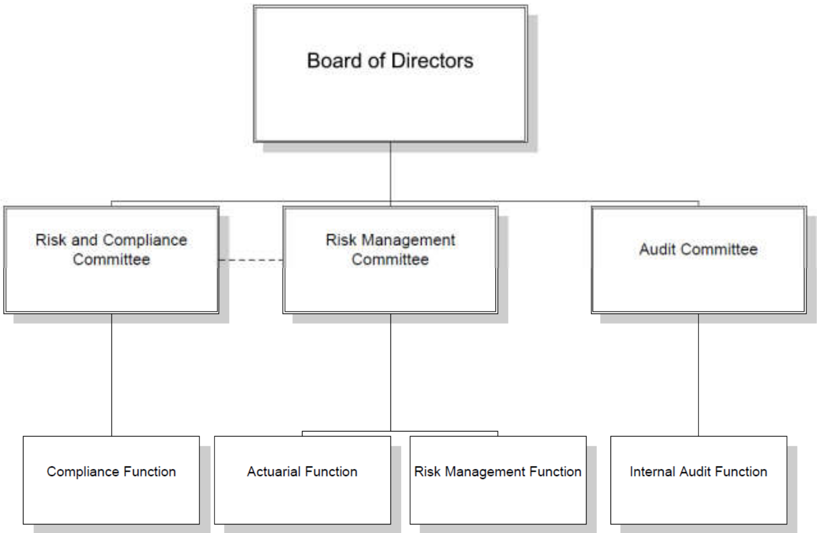
A.5 Any other information

The Company is not aware of any other disclosures that need to be made at this time.

B. System of governance

B.1 General information

FMI is governed by a Board which includes executive directors, non-executive directors ("NEDs") from the parent company and independent non-executive directors ("INEDs"). The Board has control of all business, strategic and risk decisions within FMI and meets three times a year. To assist with this there are three delegated committees each of which include directors. The system of governance is reflected in the diagram below:



The Audit Committee consists of no fewer than three members (including two INEDs), who are not officers of the Company and they meet at least twice a year. Their responsibilities include overseeing the Internal Audit function, approving the external audit plan and reviewing both internal and external audit reports.

The Risk and Compliance Committee ("RCC") consists of four members (including two INEDs). One of the INEDs chairs the RCC. The Committee is appointed annually by the Board of Directors and meets three times a year, usually before each Board meeting. Its responsibilities are to ensure the Company's risk management framework and controls comply with all relevant requirements, reporting any identified gaps or breaches to the FMI Board. The RCC receives reports and consults with the Risk Management Committee ("RMC") members as needed on any material breaches of risk limits and the adequacy of proposed action provided by the RMC, taking in to account the regulatory environment.

The RMC is established to implement and manage the Company's risks and risk management framework. It is an executive committee, made up of senior management from across the business, that has the power to take decisions regarding the Company's risk management policies and practices. It also makes recommendations to the Board, Board sub-committees and to the FM Global Business Risk Team. The RMC contains two executive directors and members of senior management from the key functions in the business. Their responsibility is to oversee the risk function on a day to day basis and monitor the ongoing efforts of the Company to remain within the risk appetite and tolerance levels. This committee meets no less than four times per year.

The responsibilities of the Board and committees include the following:

- Compliance function;
- Actuarial function;
- Internal Audit function; and
- Risk Management function.

Refer to the Risk Management System section for more details on these functions. There have been no material changes to the System of Governance over the reporting period.

Generally speaking, to assist the effectiveness of the governance processes and the functionality of the Board, all non-executive Board members are provided with all Board Committee papers in advance and invited to attend all the Board Committee meetings, enabling them to review the actual reports provided to the Committees' in advance and to ask questions, if they wish to do so.

The INEDs are paid an annual fee by FMI. As stated within the FMI Remuneration policy, "Base pay is structured to ensure employees are paid competitively for the jobs they perform. FM Global develops and manages its compensation levels according to the competitive practice of each country in which it operates."

In addition, the executive directors are eligible for the payment of incentives through FMI. Per the Remuneration policy "The objective of the incentive plans is to provide employees with variable compensation for performance that contributes significantly to the sustained success of the Company and which is directly related to the employee's contribution to exceptional Company results."

The incentive scheme is principally based on the three KRA's as noted on page 13:

Combined Ratio

The combined ratio is calculated as the sum of the loss ratio (net losses incurred divided by net premium earned) and expense ratio (net underwriting expenses incurred divided by net premium earned) for the period.

Premium Retention

The premium retention is calculated as the premium in force at the end of the period (total annualised premium on all policies that have not expired or been cancelled) compared to the premium in force at the previous year end, excluding the effect of new business written during the year.

New Business

The new business premium is the total annual premium of new policies written during the year.

Each of these KRAs are evaluated annually and targets for the year are approved by the Board.

The KRAs and incentive plans therefore align with the overall performance of the Group. This restricts the potential for incentive driven strategies that do not benefit the overall FM Global group.

The following table, included within note 7 on page 34 of the UK GAAP FS reflects the remuneration to the directors:

	2019 £000s	2018 £000s
Aggregate remuneration in respect of qualifying services	644	586
Aggregate amounts receivable under long term incentive plans	182	178
Total	826	764

The aggregate remuneration and amounts receivable under long term incentive schemes of the highest paid director was £274,000 in 2019 (2018: £364,000). There have been no other material transactions during the reporting period with members of the Board, senior management or other potential persons exercising significant influence over the Company.

B.2 Fit and proper requirements

FMI has a Fit and Proper Standard in place which applies to all employees of FMI that are subject to fit and proper assessments. The policy outlines how the employees are identified, the assessment criteria, the assessment process and the process to maintain compliance with the requirements.

A fit and proper person is anyone occupying a key position within FMI such that they may influence policy and strategic decisions. Such persons must be demonstrably honest with integrity and a good reputation. In addition, they must demonstrate competence, capability and financial soundness and meet the requirement specified in the FIT section of the PRA Handbook.

Persons occupying key positions within FMI are:

- Directors;
- SIMF/SIF/Key function Holders under the Senior Insurance Managers Regime;
- Members of the Risk Management Committee;
- Operations Managers; and
- Legal Representatives/Branch Managers.

The standard is owned and maintained by the Legal department but is at a minimum annually reviewed and approved by the RMC. The RMC also monitors compliance with the standard and has ultimate responsibility for ensuring the relevant employees are identified and meet the requirements of the standard.

There is an ongoing responsibility on both executive management and those persons occupying key positions to maintain their fit and proper status throughout their employment in that role. Succession plans are in place for all key positions.

B.3 Risk management system

The Board and management recognise the importance that risk management plays in ensuring the business is able to fully capitalise on the opportunities available to it as well as mitigating potential loss. Risk management is an integral part of the strategic planning process of FMI and is incorporated into its business plan. The Board aims to ensure that effective risk management practice remains embedded in the Company culture and throughout activities that are carried out at all levels within the Company.

Risk management at FMI is present throughout the business processes. It starts with the loss prevention reports ("LPR") prepared by engineers when they perform their engineering visits at the insured's (or a prospect in the case of potential new business) locations. These LPR's are used by the account teams to underwrite the account, set limits and deductibles, and buy reinsurance if needed. Copies of the LPR are also provided to the insured to advise them of the recommendations to improve risk quality at the inspected location. The insured's use the LPR to address the deficiencies identified during the engineering visit. There are also additional tools available to the account teams and engineers to assist them in their assessment of risk and communication with the insured (e.g. underwriting guidelines, RiskMark scores etc.).

The FMI RMC was established to provide a holistic assessment of the Company's risks and risk management systems. As noted previously, it is an executive committee that has the power to make decisions regarding the Company's risk management policies and practices.

The RMC is comprised of several members of the senior management team including:

- Managing Director;
- Finance Manager;
- Legal Counsel;
- Underwriting Manager;
- Engineering Manager;
- Operations Manager;
- Compliance Specialist; and
- Health and Safety Manager.

The Committee is responsible for setting and maintaining the risk management policy and ensuring it is consistent across FMI. It is also responsible for the Risk Appetite Framework which details the limits and tolerances the Company will accept in each of the key risk areas.

Departments within FMI maintain a departmental risk register and each risk is evaluated to determine the level of risk. Priority is given to risks that have the greatest potential for adverse impact and these risks are held in a corporate risk register which is monitored and regularly reviewed by the RMC. These risks cover all areas of the business and do not just consider operational risk. They also cover market, underwriting, credit, group, liquidity and compliance risks. The criteria for risks to be included on the Company risk register are based on a combination of severity and frequency factors along with the judgement of the RMC. Each risk on all registers must be reviewed by the risk owner no less than every six months, however risks with a high rating are monitored more frequently.

The risk management framework has been enhanced in several ways since inception:

- The appointment of WTW to provide expert actuarial review and guidance;
- The embedding of a risk appetite monitoring control system;
- Alignment of the risk register with the FM Global group; and
- Thorough reviews with Company experts.

WTW assisted FMI as consultants during the implementation of Solvency II and since implementation they have provided appropriate technical support and review in line with their scope of engagement.

The risk appetite monitoring system is based on the tolerances and limits laid out in the risk appetite framework. The risk appetite of FMI is focused around the key risks and therefore the majority of tolerances and limits are focused around underwriting risk. These include targets for the combined ratio, premium retention and new business, as well as policy limits. The framework was put in place during 2014 and has continued to evolve. The reviews performed since that time have prompted changes to some of the framework narrative and limits have been adapted to reflect the business and its exposures. The framework is a working document and as such is expected to evolve with the business.

At RMC meetings, the Committee reviews, monitors and documents significant risks. Strategies and operational controls are considered and evaluated and where appropriate will be put into place to ensure the minimisation and effective management of each risk. There is also a standing item on the RMC agenda to consider any operational changes that are occurring and the resulting potential for any new risks arising, together with an emerging risk standing agenda item. Depending on the operational change being considered, a discussion is held regarding re-running the ORSA process to quantify the effect on capital. To assist with the identification of new risks there are policies in place for each of the risk categories which define that risk area and give examples of the types of risks that could be included in this risk area. They also cover the possible controls in place to mitigate a risk.

The materiality of risks is determined during the process of development of the risk profile by considering the consequences, likelihood and controllability of each risk. The assessment of risk is based on quantitative and/or qualitative factors.

The risks from the risk register are a key input into the solvency capital model. The RMC are involved in the review of the ORSA and their familiarity with the risks involved gives them a good understanding of the expected capital charge and coverage.

In addition to risks identified in the risk register, FMI's approach is to minimise risk internally which is demonstrated by the levels of review and audit within the Company. Regular audits of engineering, claims, and underwriting processes and procedures take place in order to ensure the systems in place are adequate and are being followed. In addition, whenever a significant claim occurs an additional review of the claim takes place, including the underwriting and engineering assessments for that location, to see if any lessons can be learnt going forward.

Assets held for solvency purposes are segregated between long term and short-term holdings. Short term assets are held for working capital purposes and with a policy of neutrality on foreign currency. Cash deposits and short-term investments are held in USD, unless required for a specific liability, when the amount required would be held in the relevant transaction currency, if appropriate.

Short-term assets are held to provide the day to day working capital for the Company. The level of assets held is based on rolling 12-month cash flow forecasts prepared at a currency level. Any excess cash is put into long-term investments in accordance with the global investment policy.

As noted on page 16, FMI's long-term assets are managed on behalf of FMI by the FMIC Investment department. It is expected that equities will provide superior long-term returns than bonds, albeit with greater volatility. Therefore, a larger proportion of equities is held to maximise returns.

ORSA

The ORSA process is completed annually starting in April in order to have the results available for the business strategy planning process in October.

In certain circumstances an additional interim or partial ORSA will be run. Examples of the triggers to perform an interim or partial ORSA include:

- Changes to the business structure;
- Significant proposed changes to the investment portfolio; and
- Changes to strategy arising during the planning process.

This list is not exhaustive, and at each RMC meeting any significant changes to the business or the risk register are discussed and the need for a partial or full ORSA considered.

There are specific actions that need to be followed to complete the ORSA and these are as follows, in the order in which they should occur:

- Review risks on the risk register;
- Identify emerging and long-term risks;
- Determine inputs to the model;
- Review data received;
- Define specific parameterisation;
- Run capital charge calculation;
- Perform sensitivity tests;
- Perform stress and scenario testing;
- Compare output to risk appetite framework;
- Prepare standard formula calculation;
- Review performed by actuarial function;
- Compare the standard formula SCR to the ORSA capital charge;
- Review differences between the standard formula and ORSA capital charge;
- Projection of the capital and solvency position;
- Finalise ORSA documentation;
- Review of the ORSA report;
- Independent review performed; and
- Final ORSA review and sign off.

The RMC drive the ORSA and review key inputs during the process. They will also perform a preliminary review of the outputs. The Board has ultimate control and performs the final review and sign off. A review of FMI's own solvency assessment is compared to the regulatory solvency assessment to determine whether additional solvency cover is required or if FMI is comfortable with the current levels arising from each calculation. As FMI is very well capitalised no further actions were taken as a result of the latest review.

B.4 Internal control system

FMI has a strong control environment in place throughout the business and this is modelled on the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") framework. The internal control system within FMI consists of five key components, namely:

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring activities.

These headings will be used to describe the FMI internal control system, including any details on the key procedures in place.

Control environment

The Board and senior management of FMI lead by example regarding the importance of internal controls and play an integral part in setting the expectations at all levels within the organisation. The Board committees (the RCC and the Audit Committee) address key components of the internal control system, as mentioned previously in B1.

The Board collectively provide guidance and direction on all aspects of the internal control system. As part of their key role of providing oversight on standards and ethics within the business, they regularly review, approve, and monitor adherence to the various policies that FMI management and employees are governed by.

In addition to the policies there is also a specific Compliance function which is in place to monitor and maintain compliance with the many regulations and statutory obligations a business is exposed to. A Compliance function policy manual and Compliance Guidelines policy are in place and are required to be reviewed annually by the compliance officer. They also require approval by the RMC.

Risk assessment

FMI has a process in place for identifying and assessing the risks involved in achieving the business's objectives. As noted above, a risk register is used and overseen by the RMC to identify, assess, rate and record the significant risks that FMI faces.

The risk register also serves as a tool for Internal Audit in the development of the annual risk-based audit plan.

Control activities

Control activities support the internal control system within FMI and are closely aligned with risk assessment. Management are tasked with enacting policies and procedures that help to prevent, detect or mitigate the risks identified in the ongoing risk assessment process.

Control activities are built around the general business processes e.g. treasury, accounts payable, as well as processes specific to the insurance industry such as underwriting and claims management. There are also technology related controls that deal with information security, system change management and data back-up.

The types of controls that exist within the business include, but are not limited to:

- Reconciliations;
- System controls;
- Authorisations and approvals; and
- Physical controls.

In implementing each of the control activities in the business, consideration is given to the segregation of duties to reduce the possibilities of controls being overridden.

Information and communication

Information is important in helping the business achieve its objectives and this includes information regarding the internal control system.

Information about the business's objectives is primarily disseminated by senior management to management and employees through their reporting lines. In addition, there are various other forums, both physical and online, through which Company information is communicated.

Departmental level information is also widely collected to help measure performance, record exceptions and determine any additional measures that are necessary.

Employees also have the opportunity to communicate upwards to management.

Management also communicate externally to clients, brokers, vendors and the general public through meetings, annual reports, articles in industry publications, and various marketing initiatives.

Monitoring activities

There are various forms of ongoing or separate evaluations to help monitor all aspects of the internal control system. These can either be conducted by internal or external resources.

Separate evaluations are carried out by the Internal Audit department and staff auditors. Internal Audit is tasked with carrying out evaluations on various aspects of the business; financial, operational and compliance. Findings are reported to management and to the Board of Directors through the Audit Committee.

In addition to the work done by Internal Audit, there are discipline specific evaluations carried out by staff auditors. Examples of these include:

- Claims audits;
- Engineering audits;
- Operations audits;
- Processing audits;
- Underwriting audits; and
- Health and Safety audits.

Compliance function

FMI is committed to managing its exposure to compliance risk in accordance with the agreed risk appetite. To properly address the risks, FMI maintains effective relationships and remains in good standing with its regulators in the UK and Switzerland, where the Company is licenced to write insurance and reinsurance business.

The risk appetite framework is used to advise management of the risks to which the Company is exposed. Any potential or existing risks are measured against the framework, and the results and outcomes of actions are monitored to ensure they remain within acceptable limits. The risk appetite and tolerances are subject to review by the RMC to ensure that they remain relevant and achievable.

FMI's appetite for compliance risk is based upon the assumption that insurance companies are heavily regulated businesses. The loss of or any significant restriction on FMI's licences would impair FMG's ability to meet the needs of its policyholders and thus represents a threat to the business. Serious or persistent non-compliance with the rules and regulations could lead to the loss of, or a substantial restriction to, its insurance permissions. Appropriate systems and controls must, therefore, be maintained and monitored to ensure that FMI remains in good standing with its regulators and to ensure that any instances of non-compliance are promptly and effectively identified, assessed and addressed.

B.5 Internal Audit function

FMI considers Internal Audit as an independent appraisal function to examine and evaluate Company activities as a service to management and the Board of Directors. The mission of Internal Audit is to support the management and employees of FMI in the effective discharge of their responsibilities, by providing an independent and objective assurance and consulting function.

The Internal Audit function with responsibility for FMI reports to the Chief Internal Auditor, FMIC, who is accountable to the Audit Committee of the Board of Directors. Semi-annually, the Chief Internal Auditor will submit to the Audit Committee a written report on the activities of the Internal Audit function in the preceding audit period. They shall also make an oral report to the Audit Committee. The Chief Internal Auditor may confer with the Audit Committee or directly with the Chair of the Audit Committee or any other member of the Audit Committee including the Independent Non-Executive Directors, outside the presence of Company officials, on any subject relevant to Internal Audit's area of responsibility.

On an annual basis, a risk based Internal Audit plan is developed and presented to the Audit Committee for approval.

The Internal Audit annual plan is a risk-based plan that includes three major categories of work: (1) audit procedures related to internal control over financial reporting; (2) engagements related to regulatory compliance; and (3) risk-based internally focused audits.

(1) Audit work related to internal control over financial reporting includes the evaluation of internal controls at the significant financial business processes level. A financial business process is considered significant primarily based on quantitative factors, using materiality that is determined as a percentage of own funds.

(2) Certain regulations, for example Solvency II, require or advise Internal Audit to perform periodic audits. These are included in the audit plan as appropriate.

(3) Identification of the internally focussed audits is based on a risk assessment process. Internal Audit construct an audit universe based on their knowledge of the business and discussions with various levels of management. The audit universe is made up of auditable areas which are mapped to other assurance activities within the Company. Internal Audit meet with the other assurance providers to understand the nature of their work and determine what areas require internal audit coverage. The auditable areas covered by Internal Audit are assigned a risk rating and ranked using a risk assessment formula to ensure the most effective use of resources.

The risk assessment model considers the following factors when assigning a risk rating to each auditable area:

Likelihood of Control Issues	Impact of Control Issues
Results of prior audits Time since the last audit Complexity of the process Automated or manual process Management/personnel competency Degree of change in the audit area Susceptibility to fraud	Financial misstatement effect Impact on business objectives Solvency impact Service to clients Employee relations Regulatory

This allows the ranking of auditable areas as high, medium or low risk which then helps determine whether they are included in the audit plan for that year. Additional audits and consulting assignments may also be carried out outside of the annual audit plan, if the circumstances dictate or if requested by management e.g. due to a change in processes and procedures.

Before the commencement of each audit, an audit announcement memorandum will be sent to management by the Chief Internal Auditor. This details the agreed scope and timing and sets out any other information pertinent to the audit.

A written audit report will be prepared and issued to management by the Chief Internal Auditor following the conclusion of each audit. There is an overall report owner to whom the audit report is addressed, and any findings noted in the audit are assigned an action owner. The action owners are responsible for remediating their respective findings by the target date agreed with Internal Audit.

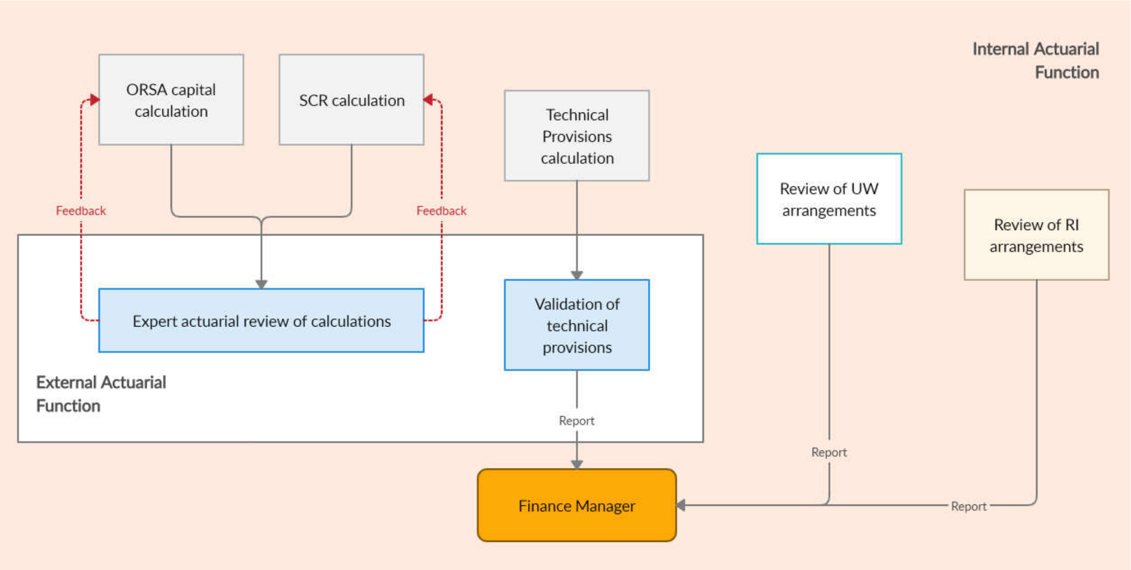
The manager receiving the report is responsible for ensuring that progress is made towards correcting any unsatisfactory conditions. Internal Audit is responsible for determining whether action taken is adequate to resolve the audit findings. If the action is not adequate, Internal Audit will inform management of the potential risk and exposure in allowing the unsatisfactory conditions to continue.

The Internal Audit department is structured so that it maintains its independence and objectivity from the activities it reviews. The Internal Audit function is independent from the business and has direct access to the Audit Committee. They perform audits on all areas of the business on a rotating schedule that ensures higher risk areas are audited more frequently than lower risk areas.

B.6 Actuarial function

The Head of the actuarial function is the FMI Finance Manager who is supported by other members of the Finance department. Expert advice from an external actuarial provider and from experts in other areas of FMG, such as underwriting, is obtained as required to cover the obligations of the Solvency II Directive. Within FMI the actuarial function consists of people who have sufficient knowledge of actuarial and financial mathematics to ensure accurate calculations are prepared internally and there is a robust review of any expert advice provided.

Below is an overview diagram of the workflow and tasks within the actuarial function:



An actuarial function policy is in place which clearly defines the division of tasks between the internal actuarial function and the external actuarial function. The policy is reviewed at least annually by the RMC. The external actuarial expert has knowledge of capital modelling for general insurers as well as general knowledge of actuarial mathematics and the insurance industry. This part of the function is outsourced to WTW in accordance with the Outsourcing policy and the Outsourcing Agreement for actuarial support. This provision is reviewed on an annual basis and an alternative contract would be considered if deemed necessary.

The external actuarial expert reports directly to the FMI Finance Manager and works closely with the FMI staff as required. Additional ad-hoc work may develop during the year, outside the predetermined responsibilities, and will be agreed with the FMI Finance Manager at that time.

The reviews of the reinsurance ("RI") and underwriting ("UW") arrangements are conducted by experts within FMIC. These experts are independent of the day to day functions of these areas but have sufficient knowledge and skills to accurately perform the review. A written report is provided by the experts to the FMI Finance Manager on an annual basis.

A formal review of the technical provisions by WTW took place in November 2019. The team involved in the review had previously performed similar reviews for other insurance companies, as well as for FMI, providing them with sufficient expert judgement to review the calculation.

The review concluded that overall FMI's technical provisions processes and results met the validation requirements as set out in Article 264 of the Delegated Act. None of the recommendations made by WTW were classified as high priority. Some of the recommendations made as part of the review included; to consider more frequent IBNR monitoring, consider performing additional sensitivity testing around the creditor and debtor amounts included within the calculation and increase documentation on the reconciliations performed. These will be considered as part of a process review and improvement cycle. FMI has committed to completing a formal review of the technical provisions on an annual basis.

An independent review of the underwriting and reinsurance functions has been performed in accordance with the requirements of Article 272 of the Solvency II Directive. The reports were provided to the Head of the actuarial function and there were no issues arising from the review.

In addition to the above, EY auditors have performed an audit of the technical provisions, Solvency II balance sheet, Standard Formula and the annual reporting templates to confirm FMI's compliance in these areas. For details of the scope and limitations of their work, please refer to the Auditors Report starting on page 9.

B.7 Outsourcing

FMI has a comprehensive Outsourcing policy in place which is used to ensure outsourcing contracts do not add significant risk to the Company. This is available to any member of staff who may be involved in setting up an outsourcing arrangement and provides guidelines on the levels of agreement that are acceptable to FMI.

As noted on page 16, investment management is outsourced to the FMIC investment team, however the investment strategy and asset allocation is approved by the FMI Board. Investment reports are received and reviewed monthly by FMI and any changes or issues are acted on immediately. Quarterly meetings are held between the FMI Finance Manager, the FMI Treasury team and the FMIC Investment team to discuss the latest cash and investment position to determine if any changes are required. Utilising the parent company to manage the investments means FMI can benefit from economies of scale and thereby reduce costs and maximise returns. The majority of the investments are held in USD which increases market risk, and results in an increased exchange risk when reporting in GBP. The assets have been included in USD in the SF model and management, together with the Board, consider this to be an acceptable level of risk.

In addition, elements of system support and backup are outsourced to FMIC; but these are coordinated by suitably knowledgeable personnel within FMI.

The external actuarial function is outsourced to WTW. This enables FMI to take advantage of expertise not available within the business. Any data used by the actuary is provided by FMI and the results are scrutinised by the Capital Modelling team within FMI Finance. The outsourcing of this function does not increase the risk to FMI significantly. If WTW were no longer available a similar provider could be found with minimal interruption to the running of the ORSA process and the strategic decision making of the business.

The actuarial function is well defined, as detailed in the previous section of this report, and there is an actuarial function policy in place along with a Terms of Reference which ensures all parties are aware of their responsibilities.

B.8 Any other information

FMI has a robust governance system. There have been no material changes within the system of governance over the reporting period. All the relevant points have been detailed in this report and there are no further disclosures required at this time.

C. Risk profile

C.1 Underwriting risk

Central to the business model is that underwriting risk within FMI is accepted and managed within agreed risk parameters. As a result, this area is very closely monitored and regulated through:

- Clear and specific underwriting guidelines;
- Well defined systems of training and monitoring;
- Regular process audits;
- General business controls as detailed in the Internal Control section of this document; and
- Regular risk appetite monitoring.

This allows the business strategy to ensure any exposures are managed and maintained within FMI's risk appetite.

FMI has a significant reinsurance program, with a number of in-house treaties available, which provide additional cover for those risks that expose FMI to potentially significant claims outside of their risk appetite. In addition, FMI has the ability to purchase facultative reinsurance as necessary.

On a local level the pricing structure is set to take into consideration the concentration of clients, and reinsurance is used to limit FMI's exposure, as needed. The risk exposures for any new clients are considered alongside the existing exposures and any concentrations of risk are taken into account.

The underwriting risk within the SF calculation is generating a capital charge of £14m (2018: £24m). The following table shows the main elements of the non-life underwriting capital charge that forms part of the SF SCR:

	2019 £000s	2018 £000s	Variance £000s
Lapse risk[3]	-	15	(15)
Catastrophe risk	8,356	8,438	(82)
Premium & Reserve risk	9,736	20,915	(11,179)
Diversification	(3,764)	(4,937)	1,173
Total underwriting risk	**14,328**	**24,431**	**(10,103)**

The decrease in underwriting risk is driven by the decrease in earned premium of £37m from 2018 as a result of the transition of the EEA business in mainland Europe to FMIE, together with increased levels of reinsurance applied to claims during 2019. During 2019 a new treaty was agreed at the group level to limit the exposure to specific types of risk losses in a calendar year. Due to the significant loss suffered by FMI in 2019 a considerable proportion of the reinsurance recovery under this treaty was attributable to FMI, which has reduced the net claims reserves used in the underwriting risk calculation.

There are strong controls around the calculation of the underwriting risk within the SF including the review of inputs and parameters by management, sensitivity testing, and management review of the results.

[3] The lapse risk calculation is generating a negative risk due to the budgeted loss in 2020. This has been set at £Nil in accordance with the annual templates.

C.2 Market risk

Market risk is the most sensitive area of the FMI SF model due to the high level of USD equities held that could potentially lead to significant unrealized losses.

Market risk is rated high on the risk register and is monitored closely by the RMC. Several sensitivity tests have been run on this area of the model and any large investment decisions are run through the SF and the ORSA model to assess the impact. The results of this sensitivity testing can then be compared to the risk appetite of FMI, so the Board can evaluate the effect of the potential risk. As FMI deals with a number of non-GBP currencies, principally USD, on a daily basis a certain level of market risk is unavoidable. Strict guidelines are in place regarding levels of currency, asset/liability matching and investment practices, and financial decisions are made prudently.

The type of assets held by FMI are a key driver of the capital charge and an area where management decisions can have a significant effect. In line with the Investment policy there is no current plan to change the asset mix. The following table shows the SF capital charge in respect of market risk:

	2019 £000s	2018 £000s	Variance £000s
Interest rate risk	13,794	26,038	(12,244)
Equity risk	222,368	148,622	73,746
Spread risk	11,347	9,678	1,669
Currency risk	166,303	166,309	(6)
Concentration risk	52,476	46,094	6,382
Diversification	(138,010)	(124,250)	(13,760)
Total market risk	**328,278**	**272,491**	**55,787**

Market risk is primarily driven by equity and currency risk.

Equity risk has increased significantly in 2019 due to an overall increase in the valuation of FMI equities of £90m and pension equities of £26m. The 2018 values were particularly low due to the fall in equity and bond values in the last quarter of 2018 and also the sale during the year of a portion of investments as a result of a modification of the asset allocation strategy, with the proceeds being held in an investment cash account at the 2018 year-end.

A currency risk charge is calculated for each currency in which the Company has assets and/or liabilities. For FMI the high charge is driven by the significant level of equities and cash held in USD.

Investments are also the key driver of the concentration risk capital charge as there are 15 individual investments that are over the 1.5% concentration threshold set by EIOPA and therefore generate a higher risk charge.

Although the market risk capital charge may be considered high compared to the total level of assets, there is sufficient capital to cover this charge and the FMI Board are comfortable with the total capital charge calculated. As discussed above the excess capital held at FMI and the funds related to this excess capital are invested in USD, in equity securities, in support of FMI's total return investor strategy.

The change in the symmetric adjustment (issued by EIOPA) and its impact on equities is calculated monthly throughout the year to monitor the effect and to keep management informed. A significant change to this factor could have a material impact on the solvency ratio. The symmetric adjustment is a mechanism to smooth the volatility of the markets. This can range from -10% to +10% and in December 2019 was -0.08%.

C.3 Credit risk

This is a lower risk area for FMI due to the highly rated reinsurers with whom business is placed. The FMI policy is to only use reinsurers that meet a specified surplus threshold amount and have an acceptable credit rating (A- or higher), unless an exception has been granted by Staff Underwriting. In the last 25 years there have been no instances of significant reinsurer default. FMI's largest single reinsurer is FMIC who are rated AA (Very Strong) by Fitch, A+ (Superior) by AM Best, and A+ (Strong) by Standard and Poor's, therefore considered unlikely to fail.

The only non-rated reinsurance entities used by FMI are captives, used at the request of the client. As these entities do not have ratings there are contracts in place to specify that the monies must be received from the captive before FMI pays the client and as a result there is no credit risk on these balances.

The reinsurers are generally well capitalised and resistant to a certain level of catastrophes. Several large events would stretch their overall capacity which could lead to them defaulting and as a result incur a capital charge within the SF. The total counterparty default charge within the SF is £34m (2018: £48m).

The decrease in 2019 is due mainly to significantly lower cash at bank due to the purchase of investments in 2019. In addition, there were fewer debtors outstanding at the end of 2019 particularly those overdue by more than three months.

C.4 Liquidity risk

This is not considered a key risk area for FMI as the Investment policy requires that cash in the relevant currency is held against any large outstanding claims. To assist in managing this on a day to day basis a 12 month rolling cash flow forecast for each individual currency where FMI holds a bank account is used to predict large and small claims along with income and reinsurance receipts due. This is then used to ensure any premium or reinsurance recoveries received are retained to match against any claims outstanding. Where no income is expected in a specific currency, external advice is sought on the best time to purchase the currency required, prior to the date of the claims payment. The cash flow will also incorporate any other income and expenses expected within the next 12 months, such as operational expenses.

Expected profits included in future premium are £5.2m at December 2019 (2018: £5.8m). Refer to S.23.01.01 within the Appendices for further detail.

An arrangement is in place with FMIC which provides that, if required, the reinsurance due from FMIC is paid in advance to fund the payment to the client.

C.5 Operational risk

This risk area covers any risks on the risk register that are not covered by any other risk areas. The key risk areas are monitored through the risk register and the risk appetite framework. They are reviewed at RMC meetings to ensure management are aware of the risks, that they are being adequately controlled and that mitigation is in place, if deemed necessary.

The SF charge for operational risk is a more simplistic formula based on the technical provisions and earned premium. The total operational risk charge from the SF model for 2019 is £9.0m (2018: £9.8m).

The charge is calculated on the higher of 3% of gross earned premium and 3% of technical provisions.

There is very little concentration of risks within the operational risk area of the capital modelling as these are mostly very disparate events with little or no correlation with each other. As a result, the individual elements of this risk area are not very sensitive and a change to one will not have a significant effect on the overall operational risk charge for the ORSA model.

C.6 Other material risks

The only risk area not mentioned above is that of group risk, however this is not considered a high risk to FMI as FMIC is very highly rated and unlikely to fail within a 99.5% confidence level. As at 31 December 2019 FMIC has $14.6bn in capital.

If FMIC were to fail this would be the most extreme scenario for FMI as it would mean the potential loss of many clients and therefore also likely to cause FMI to fail. This is considered as part of reverse stress testing as it is such an extreme scenario and outside the parameters of the model calculations.

The main risk for FMI is that FMIC do not meet their financial obligations as they are FMI's largest reinsurer. As noted above FMIC have a very high rating indicating they are unlikely to default and held $2.0bn of available cash on their balance sheet at 31 December 2019. In addition, defaulting on FMI would mean losing one of their international bases of operation which would alter FMG's business model. The risk of FMIC defaulting on its reinsurance balances with FMI is included within the credit risk section of the model in the same way as for any external reinsurer.

All services provided by FMIC are covered by a group risk on the risk register and this is reviewed by the RMC. In addition, the reinsurance exposure of FMI to FMIC is monitored monthly as part of management reporting and is included in the risk appetite monitoring control sheet, which is distributed to the RMC. There is an agreement in place to settle reinsurance balances quarterly which also limits FMI's exposure.

FMIC provides support services to FMI, including investment management and system support, however the Company could continue to function in the short term using local resources, until new contracts were agreed. As the likelihood is low and there are good controls and mitigation in place, the overall rating of this risk is rated low.

The capital model takes into consideration the fact that the failure of FMIC will mean the cessation of the stop loss treaty. If a simulation has calculated that FMIC will go into default, then the stop loss and amount ceded on expenses is also considered unrecoverable. A large capital charge for this scenario is generated within the extreme tail of the model.

The SF model does not have the facility to fully account for the stop loss treaty. The catastrophe risk element is capped at the limit of the stop loss treaty which generates a high level of reinsurance due from FMIC. This is then included within the counterparty default charge and the remainder of the SF calculation does not include any further adjustments for the stop loss. The Board understands that this generates a higher SCR however they are comfortable that there is sufficient capital in place and the SF remains appropriate for the Company.

C.7 Any other information

A large number of sensitivity and scenario tests are undertaken during the modelling process to assist in both understanding the effect of movements within a specific risk area and illustrating the overall dynamic of the risk areas within the total capital charge.

The stressed model parameters are recommended by the Solvency II modelling team and agreed with the RMC based on areas considered to be key risks for FMI. The testing affecting individual risk areas has been discussed previously in this report. The tests performed on the ORSA model differ from those within the SF model.

The sensitivity testing completed on the SF model included the following:

- Converting USD equities to USD bonds;
- Reducing all counterparty ratings by one credit quality step;
- Reducing FMIC's rating by one credit quality step; and
- Adjusting the market risk parameters, to assess the risk of volatile markets.

The results of these tests reflect the significance of each area on the capital charge and offer management focused information to review business decisions and take a strategic view. A summary of the sensitivities are as follows:

	2019 Final Submission £000s	2019 Convert USD Equities to USD Bonds £000s	2019 Reduce All Ratings by 1 Credit Step £000s	2019 Reduce Only FMIC by 1 Credit Step £000s	2019 Adjust market risk parameters £000s
Non-Life risk	14,328	14,328	14,328	14,328	14,328
Market risk	328,278	234,634	328,278	328,278	377,351
Counterparty risk	34,436	34,436	66,837	61,522	34,436
Operational risk	9,032	9,032	9,032	9,032	9,032
Diversification	(34,033)	(33,081)	(53,467)	(50,450)	(34,351)
Total SCR	352,041	259,349	365,008	362,710	400,796
Solvency II Available Own Funds	655,156	655,156	655,156	655,156	655,156
Solvency ratio	186.1%	252.6%	179.5%	180.6%	163.5%

The sensitivity tests above show equities are a key driver of the solvency capital charge. The scenario providing the greatest capital coverage for FMI would be to convert the equities to bonds which, even if kept in USD, would result in a decrease of the SCR to £259m and an increase in the solvency ratio to 252.6%, as shown above.

The scenario with the greatest negative impact would be an increase in the symmetric adjustment (SA) factor, which is a market risk parameter prescribed by EIOPA, combined with an increase in the interest rate base points. The SA is designed to smooth the volatility of equity markets over several years but can have a significant impact on the market risk capital charge. Due to FMI's high level of USD equities an increase in the SA from -0.08% (as at December 2019) to +10% increased both the market risk and the overall capital charge by £49m, thereby reducing coverage to 163.5%.

EIOPA state that the SA can vary between -10% and 10%. Should EIOPA reduce it to the minimum -10% the resulting SCR would reduce to £249m with a solvency ratio of 263%.

Increasing the base points by 100 for EUR and USD and 85 for GBP only added £100k to the market risk charge due to the short tail nature of FMI's assets.

Reducing FMIC's credit rating has a significant effect on the total SCR as there is a large amount due to the parent company as a result of the reinsurance provided. The parent company reinsures 75% of all claims over £650k and up to the Excess of Loss treaty ("EOL") attachment point ($450m per catastrophe event, $300m per risk loss). 100% of the loss over the attachment point will either be covered by the EOL treaty or by FMIC (per the internal reinsurance agreement). There is also a stop loss treaty in place and FMIC will reimburse any costs over a 125% combined ratio limit in any one calendar year. Reducing credit ratings of all creditors by one point only reduces the coverage by a further 1.1%.

D. Valuation for solvency purposes

D.1 Assets

The asset valuations are based on the methods prescribed by the Delegated Acts. The following table reflects the values and differences to those recorded in the UK GAAP FS as at December 31, 2019.

	UK GAAP £000s	Solvency II £000s	Difference £000s
Deferred acquisition costs	813	-	(813)
Deferred tax assets	-	34	34
Property, plant & equipment	16,443	30,393	13,950
Investments	567,429	568,406	977
Reinsurance recoverables	253,459	299,930	46,471
Insurance receivables	33,939	16,142	(17,797)
Reinsurance receivables	84,172	6,347	(77,825)
Receivables (trade, not insurance)	23,651	23,651	-
Cash and cash equivalents	109,880	109,880	-
All other assets	1,566	539	(1,027)
Total assets	1,091,352	1,055,322	(36,030)

As at December 31, 2018

	UK GAAP £000s	Solvency II £000s	Difference £000s
Deferred acquisition costs	958	-	(958)
Deferred tax assets	4,875	7,153	2,278
Property, plant & equipment	6,656	6,656	-
Investments	425,782	426,431	649
Reinsurance recoverables	202,210	230,671	28,461
Insurance receivables	51,277	21,985	(29,292)
Reinsurance receivables	38,088	5,999	(32,089)
Receivables (trade, not insurance)	25,478	25,478	-
Cash and cash equivalents	299,846	299,846	-
All other assets	3,096	2,398	(698)
Total assets	1,058,266	1,026,617	(31,649)

Deferred acquisition costs are not recognised under the Delegated Acts and therefore the Solvency II balance sheet value is £nil.

The bases of valuation for the material classes of assets are provided below:

Deferred tax assets

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Under Solvency II the deferred tax assets are calculated based on the temporary differences between the Solvency II and tax values.

Property, plant & equipment

The assets held under UK GAAP are held at cost less depreciation and this method, due to the nature of the assets, equates to market value under Solvency II. In accordance with Solvency II guidance and calculated in line with IFRS 16 requirements, all material lease commitments have been capitalised and included in this category on the balance sheet.

Financial investments

Financial investments comprise exchange traded equity instruments of £400m (2018: £310m) and high-grade debt securities of £167m (2018: £116m).

The investments are measured on a market value basis, consistent with Article 10(2) of the Delegated Acts.

Equity instruments are financial assets that are measured by reference to published quotes in an active market, with quoted prices readily and regularly available from an exchange, dealer, or broker and those prices representing actual and regularly occurring market transactions on an arm's length basis.

Debt securities are financial assets measured using valuation techniques based on assumptions that are supported by prices from observable current market transactions. Debt securities are priced by an independent vendor using evaluated market pricing models.

Under Solvency II, accrued interest is included as part of the investment valuation. By comparison under UK GAAP it is recorded separately as part of Other Assets.

Reinsurance recoverables

Details related to the valuation of technical provisions are provided in Section D.2.

Insurance and reinsurance receivables

Debtors receivable are recorded at transaction price. Due to the short-term nature of the balances they are held at an undiscounted amount. Under Solvency II the future cash inflow from these debtors is included in technical provisions.

Receivables (trade, not insurance)

Receivables in the balance sheet are comprised of other debtors.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less.

All other assets

The valuation of these assets on a fair value basis does not materially differ from the values recorded in the UK GAAP FS. The amounts are consistent with the UK GAAP FS.

D.2 Technical provisions

Under Solvency II, the value of technical provisions is expected to correspond to the amount an insurance or reinsurance undertaking would have to pay if it transferred its contractual rights and obligations immediately to another undertaking. The provision should comprise a best estimate of future technical cashflows, discounted to present value, and a risk margin.

For non-life undertakings, the best estimate is the sum of the following:

- Claims provision - a provision relating to events that have already occurred; and
- Premium provision - a provision relating to events on unexpired risks at the balance sheet date within the contract boundaries.

The best estimate technical provisions on the Solvency II basis are supplemented by the risk margin, representing the cost of capital which a third party would incur in taking over and running the existing obligations to expiry. The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the current insurance obligations over their lifetime.

A Technical Provisions policy is in place which outlines the requirements under Solvency II and ensures each set of calculations are performed consistently. In addition, detailed procedures are available to ensure the calculation can be re-performed, if required.

Under Solvency II the technical provisions are based on the calculation specified in Section 3 of Chapter III of Title 1 of the Delegated Acts. This requires certain additional elements which are not included under the UK GAAP valuations used in the FMI FS. Within the premium provision the value of premium arising from those contracts which have been bound but not incepted at the year-end date, is added. Events not in data ("ENIDs") have been included based on the FMI specific modelled catastrophes, which are generated by FMIC's data modelling team. The future cash in-flows and out-flows from insurance receivables and payables are included in the premium provision value before discounting. The portion of premium due on the EOL treaty that FMI participates in is included within the technical provisions, offsetting future reinsurance recoverables.

For both the premium and claims provisions an element of reinsurer default has been included to account for the possibility that all reinsurance may not be recovered. This has been calculated based on credit risk factors within the SF. The claims provision will also include the cash in-flows from the reinsurance receivables as per the Delegated Acts.

The discounting is calculated by currency based on the risk-free rates published by EIOPA.

As noted previously, FMG's business model has been in place for over 180 years. When calculating the technical provisions, it was assumed that there would be no fundamental changes to the way the Board runs the business, including the efforts to match assets to liabilities by currency. Although there has been a transition of business to FMIE, the underlying business model of FMI has remained consistent.

Future claims experience is dependent on the external environment, which is subject to uncertainty, including that related to legislative, social and economic change. The impact of uncertain external factors is considered throughout the reserving exercise and through sensitivity testing including in the predicted profit ratios. External factors, future client behaviour and management actions are considered when preparing the strategic plan. The external environment is monitored and where relevant, predicted changes to the market and potential impacts are included in the provision or considered through sensitivity testing. The results of testing performed this year can be found in section C7.

The payment of future claims is calculated with reference to historical payment patterns which are used in the best estimate reserving.

The table below reflects the consolidated technical provisions by type, as shown in template S.17.01, and compares these to the UK GAAP values at December 2019.

	UK GAAP £000s	Solvency II £000s	Difference £000s
Premium Provision:			
Gross	65,774	53,874	(11,900)
Reinsurance	47,198	21,706	(25,492)
Net	18,576	32,168	13,592
Claims Provision:			
Gross	250,895	247,189	(3,706)
Reinsurance	206,261	278,223	71,962
Net	44,634	(31,034)	(75,668)
Total best estimate – gross	316,669	301,063	(15,606)
Total best estimate – net	63,210	1,134	(62,076)
Risk margin	-	6,875	6,875

The UK GAAP total technical provisions within the table above is included within the Company balance sheet of the UK GAAP FS.

Comparison of technical provisions as at December 2018.

	UK GAAP £000s	Solvency II £000s	Difference £000s
Premium Provision:			
Gross	85,532	121,774	36,242
Reinsurance	63,933	64,357	424
Net	21,599	57,417	35,818
Claims Provision:			
Gross	209,699	205,869	(3,830)
Reinsurance	138,277	166,314	28,037
Net	71,422	39,555	(31,867)
Total best estimate – gross	295,231	327,643	32,412
Total best estimate – net	93,021	96,972	3,951
Risk margin	-	9,297	9,297

The difference between the UK GAAP and Solvency II balances is primarily due to Solvency II reporting discounted cash flows on the future obligations for each reporting period. In addition, there are several additional provisions included within the Solvency II balances (e.g. risk margin) that are required per the Delegated Acts. One of the most significant of these is the inclusion of debtor and creditor balances as cash in-flows and out-flows respectively. In 2019 there is a large debtor arising from a reinsurance balance[4] (£78m, 2018: £32m) which under Solvency II regulations is included within the claims provision as a future cash in-flow. Therefore, this year the net provisions are significantly lower than the UK GAAP balance.

Template S.17.01.01 within Appendix 3 gives a further breakdown of the technical provisions, including a breakdown of the gross and net technical provisions, and the risk margin by line of business. The tables below show an extract of that template:

Premium Provisions £000s	MAT	Fire & other (Property)	Non-proportional MAT	Non-proportional Property	Total Non-life
Gross – Total	**1,538**	**50,744**	**200**	**1,392**	**53,874**
Gross – Direct business	1,538	50,744			52,282
Gross – accepted RI			200	1,392	1,592
Reinsurance	(845)	(20,466)	(56)	(339)	(21,706)
Net Best Estimate	**693**	**30,278**	**144**	**1,053**	**32,168**

Claims Provisions £000s	MAT	Fire & other (Property)	Non-proportional MAT	Non-proportional Property	Total Non-life
Gross – Total	**7,879**	**232,188**	**1,177**	**5,945**	**247,189**
Gross – Direct business	7,879	232,188			240,067
Gross – accepted RI			1,177	5,945	7,122
Reinsurance	(7,987)	(263,631)	(344)	(6,261)	(278,223)
Net Best Estimate	**(108)**	**(31,443)**	**833**	**(316)**	**(31,034)**

The majority (90%) of the net technical provisions are attributable to the 'Fire and other damage to property' insurance class.

No transitional provisions or long-term guarantee measures are used by FMI. FMI does not take advantage of the matching adjustment or volatility adjustment as these are not appropriate for the business. There have been no material changes to the basis of measurement.

[4] For the purpose of calculating the amounts recoverable from reinsurers within the claims provision, due to the nature of the reinsurance contracts, it is not practicable to distinguish between the cash flows in relation to unsettled insurance claims and settled insurance claims. These recoveries are therefore reflected within the claims provision within the technical provisions. If the amounts were allocated between recoveries within the technical provisions and reinsurance receivables, this would not have a material impact on the SCR or Solvency position of the Company.

D.3 Other liabilities

Other than technical provisions, liabilities are valued for Solvency II purposes at approximate market value due to their short-term nature. This is comparable to the UK GAAP FS valuation.

2019	UK GAAP £000s	Solvency II £000s	Difference £000s
Technical provisions	316,669	307,938	(8,731)
Pension benefit obligation	14,408	14,408	-
Insurance payables	2,968	2,968	-
Reinsurance payables	29,056	-	(29,056)
Payables (trade, not insurance)	49,452	65,296	15,844
Deferred tax liability	519	-	(519)
All other liabilities	13,547	9,556	(3,991)
Total liabilities	426,619	400,166	(26,453)

2018	UK GAAP £000s	Solvency II £000s	Difference £000s
Technical provisions	295,231	336,940	41,709
Pension benefit obligation	17,208	17,208	-
Insurance payables	2,569	2,569	-
Reinsurance payables	50,954	-	(50,954)
Payables (trade, not insurance)	69,305	69,305	-
Deferred tax liability	-	-	-
All other liabilities	9,280	6,604	(2,676)
Total liabilities	444,547	432,626	(11,921)

Pension benefit obligations

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. The prescribed accounting valuation method is consistent with the permitted Solvency II valuation method. Additional details on the valuation method are provided in Note 1.5 on page 31 of the UK GAAP FS.

Insurance payables and reinsurance payables

Insurance and reinsurance creditors are recorded at transaction price. Due to the short-term nature of the balances they are held at an undiscounted amount. Under Solvency II the future cash out-flow from these creditors is included in the technical provisions.

Payables (trade, not insurance)

Payables are recorded at transaction price. Due to the short-term nature of the majority of the balances they are held at an undiscounted amount.

Within this category is the liability arising from the capitalisation of lease assets calculated based upon IFRS 16 requirements.

Deferred tax liability

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax liabilities are recognised to the extent that it is regarded as more likely to be charged.

Under Solvency II deferred tax is calculated based on the temporary differences between the Solvency II and tax values.

All other liabilities

Additional information on other liabilities is included in Note 19 and Note 20, on pages 43 and 44 of the UK GAAP FS. The uncertainty of liability valuations and judgments are as set out in Note 1, page 26, of the UK GAAP FS. All other liabilities are valued at transaction price, whichever is relevant to the type of liability.

The liabilities included in this category are short term in nature and primarily relate to deferred acquisition costs and salary and incentive accruals. The difference to UK GAAP is due to deferred acquisition costs not being recognised under the Delegated Acts. Therefore, the Solvency II balance sheet value of deferred reinsurance commissions is £nil.

D.4 Alternative methods for valuation

No alternative valuation methods have been used.

D.5 Any other information

No further disclosures are required.

E. Capital management

E.1 Own funds

FMI has no plans to change the nature of the own funds or issue new own fund items. All shares are owned by FMIC, and no dividends or distributions are due to be paid in the period of the 2020 strategic plan. If any changes are proposed to the own funds, the Board will ensure they are in accordance with Articles 41 and 93 of the Solvency II Directive.

FMI is committed to managing its exposure to loss of capital in accordance with the agreed risk appetite which is detailed in the risk appetite framework. The capital management policy in place is intended to ensure the Company has sufficient own funds to cover the regulatory capital required over the period of the business plan. For FMI this is a period of three years. In the future planning period, the only factor anticipated to affect the own funds value would be profit or losses made in future years, or a change to the method of valuing technical provisions.

FMI's own funds are predominantly made up of ordinary share capital. The assets are held in bonds and equities that are available as required. FMI does not have preference shares or subordinated liabilities which restrict the availability of capital.

The table below is an extract from form S.23.01 and represents the detail of the own funds as well as the SCR and solvency ratio for the year ended 31 December 2019.

2019	Total £000s	Tier 1 £000s	Tier 2 £000s	Tier 3 £000s
Ordinary share capital		355,000	-	-
Share premium account		978	-	-
Reconciliation reserve		299,144	-	-
Net deferred tax assets		-	-	34
Total available own funds	655,156	655,122	-	34
SCR	352,041			
Minimum Capital Requirement (MCR)	88,010			
Ratio of own funds to SCR	186.1%			
Ratio of own funds to MCR	744.4%			

2018	Total £000s	Tier 1 £000s	Tier 2 £000s	Tier 3 £000s
Ordinary share capital		355,000	-	-
Share premium account		978	-	-
Reconciliation reserve		230,860	-	-
Net deferred tax assets		-	-	7,153
Total available own funds	593,991	586,838	-	7,153
SCR	306,976			
MCR	76,744			
Ratio of own funds to SCR	193.5%			
Ratio of own funds to MCR	764.7%			

As at 31 December 2019 the ordinary share capital was £355m and share premium was £1m. The reconciliation reserve represents the excess of assets over liabilities that is not accounted for by issued instruments, including adjustments discussed below to comply with the Solvency II Directive.

There is no requirement to raise additional capital and it is not likely this will be required in the foreseeable future.

As at 31 December 2019 the total UK GAAP available funds were £665m (2018: £614m) and the Solvency II available funds were £655m (2018: £594m). The primary difference between UK GAAP reserves and Solvency II own funds are the differences between the technical provisions. In addition, the elimination of deferred acquisition costs and the capitalisation of the lease assets represent contributing factors to the change.

The majority of FMI's own funds are classified as Tier 1 under the Delegated Acts and are therefore fully available for matching against the regulatory capital requirement. The deferred tax asset recorded on the balance sheet for 2019 is £34k (2018: £7m). This is the only balance classified as Tier 3 under Solvency II. Tier 3 own funds are not eligible to cover the MCR, and are eligible for SCR purposes only up to 15% of the SCR.

E.2 Capital requirements

The SCR and MCR are calculated annually or when there is a significant change in risk profile. The SF is the prescribed method of calculating the SCR and MCR for a firm which does not have an approved internal model or approval to use undertaking specific parameters. The SF calculation is conducted by the Solvency II modelling team using the Igloo software platform which contains the latest technical specifications in accordance with the requirements of the Delegated Acts.

The detailed data required is generated from FMI's internal systems and internally generated documents. Where relevant, the data used for the ORSA calculation is utilised to ensure parity between the models.

As mentioned previously the method of calculation for the SF is prescribed by the Delegated Acts and there is no ability to adjust the core calculation, except for simplification options in the calculation of the risk margin.

Due to this prescription, FMI is unable to fully incorporate into the SF the total benefit of the stop loss treaty with FMIC. It is applied only within the catastrophe risk calculations, as mitigating reinsurance. The capital charge therefore understates the benefit the stop loss treaty would provide to FMI in a volatile calendar year.

The following table is a breakdown of the SF SCR as seen on template S.25.01, compared to the 2018 breakdown:

	2019 £000s	2018 £000s	Variance £000s
Risk Modules:			
Non-Life	14,328	24,431	(10,103)
Market	328,278	272,491	55,787
Counterparty	34,436	48,399	(13,963)
Operational	9,032	9,829	(797)
Diversification	(34,033)	(48,174)	14,141
Total SCR	352,041	306,976	45,065
	SCR 2019	SCR 2018	Variance
Capital Requirements	352,041	306,976	45,065
Eligible Own Funds	655,156	593,991	61,165
Excess Eligible Funds Over Required	303,115	287,015	16,100
Solvency Ratio	186.1%	193.5%	(7.4%)

Using the SF approach, the SCR is £352m (2018: £307m). The current capital levels give a coverage of 186% (2018: 194%).

The MCR is calculated as prescribed in the Delegated Acts, using inputs of net technical provisions and net written premium (on a Solvency II basis), subject to minimum and maximum values by reference to the SCR. In the current and prior years, the minimum value has applied, setting the MCR equal to 25% of the SCR. The minimum capital requirement ("MCR") is calculated as £88m (2018: £77m), which provides a coverage of 744% (2018: 765%) when compared to eligible capital. As noted above, tier 3 own funds are not eligible capital for the MCR.

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

E.3 Duration-based equity risk sub-module

A duration-based equity risk sub-module is not used in the calculation of the SCR. The SCR is calculated including a symmetric adjustment to the equity capital charge applied to cover the risk arising from the changes in the level of equity prices, per the Delegated Acts.

E.4 Differences between SF and any internal model used

FMI uses the SF to calculate the SCR and therefore no differences exist.

E.5 SCR and MCR non-compliance

There have been no instances of non-compliance through the year.

E.6 Any other information

There are no further disclosures to be made at this time.

Appendices

Glossary

Board	FMI Board of Directors
COSO	Committee of Sponsoring Organisations of the Treadway Commission
EIOPA	European Insurance and Occupational Pensions Authority
Delegated Acts	Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
EEA	European Economic Area
ENID	Events Not in Data
EY	Ernst & Young LLP, independent auditors
FMG	FM Global, the group consisting of FMI, FMIC and its subsidiaries and affiliates
FMI	FM Insurance Company Limited (UK entity)
FMIC	Factory Mutual Insurance Company (US entity), the parent company
FMIE	FM Insurance Europe S.A. (EU entity headquartered in Luxembourg)
HPR	Highly Protected Risk
INED	Independent Non-Executive Director
KRA	Key Result Area
LPR	Loss Prevention Reports
MCR	Minimum Capital Requirement, represents the threshold below which a national regulatory agency would intervene
NED	Non-Executive Directors (employed by FMIC)
ORSA	Own Risk and Solvency Assessment, Solvency II method of assessing the Company's risk and capital requirement
PRA	Prudential Regulation Authority, UK insurance regulator
QRT	Quantitative Reporting Templates, quarterly and annual reports to the regulator
RI	Reinsurance arrangements
RCC	Risk and Compliance Committee, FMI Board Committee
RMC	Risk Management Committee, FMI Executive Committee

SCR	Solvency Capital Requirement, regulatory capital amount required to be held by regulated entities
SF	Standard Formula, EIOPA prescribed formula ensuring all insurance companies calculate the SCR using the same method
Stop Loss	Internal reinsurance arrangement in place with FMIC which caps FMI's combined ratio to 125% in any calendar year
Staff Underwriting	Senior underwriters based in corporate office
UK GAAP	The accounting framework applicable to FMI for its statutory financial statements
UK GAAP FS	The consolidated financial statements of FMI and its subsidiary
UW	Underwriting arrangements
WTW	Willis Towers Watson
EOL	Excess of Loss treaty

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Reporting templates

- S.02.01.02 – Balance sheet
- S.05.01.02 – Premium, claims and expenses by line of business
- S.05.02.01 – Premium, claims and expenses by country
- S.17.01.02 – Non-Life Technical Provisions
- S.19.01.21 – Non-Life insurance claims
- S.23.01.01 – Own Funds
- S.25.01.21 – Solvency Capital Requirement – for undertakings on Standard Formula
- S.28.01.01 – Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

General information

Undertaking name	FM Insurance Company Limited
Undertaking identification code	213800ZBBFPVX66EWL79
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	34
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	30,393
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	568,406
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	202,047
R0110	*Equities - listed*	202,047
R0120	*Equities - unlisted*	
R0130	*Bonds*	167,938
R0140	*Government Bonds*	109,467
R0150	*Corporate Bonds*	34,250
R0160	*Structured notes*	0
R0170	*Collateralised securities*	24,220
R0180	*Collective Investments Undertakings*	198,421
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	299,930
R0280	*Non-life and health similar to non-life*	299,930
R0290	*Non-life excluding health*	299,930
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	16,142
R0370	Reinsurance receivables	6,347
R0380	Receivables (trade, not insurance)	23,650
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	109,880
R0420	Any other assets, not elsewhere shown	539
R0500	**Total assets**	1,055,322

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	307,938
R0520	*Technical provisions - non-life (excluding health)*	307,938
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	301,063
R0550	*Risk margin*	6,875
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	14,408
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	2,968
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	65,296
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	9,555
R0900	**Total liabilities**	400,166
R1000	**Excess of assets over liabilities**	655,156

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business						6,020	150,007										156,027
R0120	Gross - Proportional reinsurance accepted						0	0										0
R0130	Gross - Non-proportional reinsurance accepted															1,475	1,883	3,358
R0140	Reinsurers' share						3,255	114,394								783	1,422	119,855
R0200	Net						2,765	35,613								692	461	39,531
	Premiums earned																	
R0210	Gross - Direct Business						5,707	139,340										145,047
R0220	Gross - Proportional reinsurance accepted						0	0										0
R0230	Gross - Non-proportional reinsurance accepted															1,770	31,683	33,453
R0240	Reinsurers' share						3,360	106,253								997	25,613	136,224
R0300	Net						2,347	33,087								773	6,070	42,276
	Claims incurred																	
R0310	Gross - Direct Business						4,733	312,528										317,261
R0320	Gross - Proportional reinsurance accepted						0	0										0
R0330	Gross - Non-proportional reinsurance accepted															970	567	1,537
R0340	Reinsurers' share						2,381	293,121								376	-165	295,712
R0400	Net						2,352	19,408								594	732	23,085
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net						0	0								0	0	0
R0550	**Expenses incurred**						599	16,295								145	180	17,219
R1200	**Other expenses**																	12,400
R1300	**Total expenses**																	29,619

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			CH					
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	132,085	17,909					149,994
R0120	Gross - Proportional reinsurance accepted	0	0					0
R0130	Gross - Non-proportional reinsurance accepted	58	0					58
R0140	Reinsurers' share	100,380	13,347					113,728
R0200	Net	31,762	4,562					36,324
	Premiums earned							
R0210	Gross - Direct Business	124,518	16,034					140,552
R0220	Gross - Proportional reinsurance accepted	0	0					0
R0230	Gross - Non-proportional reinsurance accepted	60	0					60
R0240	Reinsurers' share	95,072	12,293					107,366
R0300	Net	29,505	3,741					33,246
	Claims incurred							
R0310	Gross - Direct Business	332,442	-298					332,143
R0320	Gross - Proportional reinsurance accepted	0	0					0
R0330	Gross - Non-proportional reinsurance accepted	85	0					85
R0340	Reinsurers' share	268,358	-420					267,938
R0400	Net	64,169	122					64,291
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0					0
R0550	**Expenses incurred**	14,953	2,027					16,979
R1200	**Other expenses**							11,673
R1300	**Total expenses**							28,653

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**						0	0								0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross						1,538	50,744								200	1,392	53,874
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						845	20,466								56	339	21,706
R0150	**Net Best Estimate of Premium Provisions**						693	30,278								144	1,053	32,168
	Claims provisions																	
R0160	Gross						7,879	232,189								1,177	5,945	247,189
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						7,987	263,631								343	6,261	278,223
R0250	**Net Best Estimate of Claims Provisions**						-109	-31,443								834	-316	-31,034
R0260	**Total best estimate - gross**						9,417	282,932								1,377	7,337	301,063
R0270	**Total best estimate - net**						584	-1,165								977	737	1,133
R0280	**Risk margin**						239	6,437								7	192	6,875
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**						9,656	289,369								1,384	7,529	307,938
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**						8,833	284,097								400	6,600	299,930
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**						823	5,272								984	929	8,009

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Accident Year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	2010	0	0	0	0	0	0	0	0	0	0		0	0
R0170	2011	409,959	371,461	217,403	11,787	-283	-7,104	-4	109	-417			-417	1,002,911
R0180	2012	119,109	219,396	45,399	5,210	450	2,248	-137	-185				-185	391,490
R0190	2013	135,812	209,216	91,000	21,446	2,094	-216	-163					-163	459,191
R0200	2014	128,452	252,137	87,718	8,955	3,446	-341						-341	480,365
R0210	2015	106,945	154,722	68,837	5,859	28							28	336,390
R0220	2016	88,791	134,421	63,002	3,626								3,626	289,841
R0230	2017	391,930	386,697	68,452									68,452	847,078
R0240	2018	25,594	125,048										125,048	150,642
R0250	2019	78,111											78,111	78,111
R0260												Total	274,159	4,036,018

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	2010	0	0	0	0	0	0	0	0	0	4,519		4,446
R0170	2011	0	0	0	0	0	0	0	0	145			146
R0180	2012	0	0	0	0	0	0	0	666				669
R0190	2013	0	0	0	0	0	0	63					62
R0200	2014	0	0	0	0	0	261						262
R0210	2015	0	0	0	0	664							661
R0220	2016	0	0	0	951								946
R0230	2017	0	0	12,905									12,930
R0240	2018	0	17,833										17,769
R0250	2019	212,888											209,299
R0260												Total	247,189

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 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	355,000	355,000		0	
R0030	Share premium account related to ordinary share capital	978	978		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	299,143	299,143			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	34				34
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	655,156	655,122	0	0	34
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	655,156	655,122	0	0	34
R0510	Total available own funds to meet the MCR	655,122	655,122	0	0	
R0540	Total eligible own funds to meet the SCR	655,156	655,122	0	0	34
R0550	Total eligible own funds to meet the MCR	655,122	655,122	0	0	
R0580	**SCR**	352,041				
R0600	**MCR**	88,010				
R0620	**Ratio of Eligible own funds to SCR**	186.10%				
R0640	**Ratio of Eligible own funds to MCR**	744.37%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	655,156
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	356,012
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	299,143
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	5,159
R0790	**Total Expected profits included in future premiums (EPIFP)**	5,159

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	328,278		
R0020	Counterparty default risk	34,436		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	14,328		
R0060	Diversification	-34,033		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	343,009		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	9,032
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	352,041
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	352,041
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Not applicable

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

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
R0010	MCR_{NL} Result	3,667

		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	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	584	2,764
R0080	Fire and other damage to property insurance and proportional reinsurance	0	35,062
R0090	General liability insurance and proportional reinsurance	0	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	977	692
R0170	Non-proportional property reinsurance	737	1,013

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	3,667
R0310	SCR	352,041
R0320	MCR cap	158,418
R0330	MCR floor	88,010
R0340	Combined MCR	88,010
R0350	Absolute floor of the MCR	2,153
R0400	**Minimum Capital Requirement**	88,010