# FM Insurance Company Limited

# Solvency and Financial Condition Report

# 2018

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# Summary

## Current Year Performance

FM Insurance Company Limited's ("FMI" and the "Company") principal activities 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 of the UK.

The insurance business of the branches in Belgium, France, Germany, Italy, the Netherlands, Spain and Sweden, together with the non-UK insurance business previously written by the UK, transferred to FM Insurance Europe S.A. ("FMIE") from 1 January 2018 on a renewals basis. As a result of this in 2018 gross premium written have fallen from £680m to £170m (75%).

The net loss ratio decreased to 60.9% (2017: 93.9%) and the expense ratio was 11.5% (2017: 31.1%) including a foreign exchange gain of £39m (2017: loss of £49m). The prior year loss ratio was primarily attributable to one significant loss event, with there being no significant large loss events during 2018. Realised and unrealised losses on investments amounted to £47m (2017: £76m gain) as a result of the general movements in the stock markets.

The loss for the year and other movements described in the consolidated statement of comprehensive income in the 2018 UK GAAP consolidated financial statements ("UK GAAP FS") resulted in an overall decrease in consolidated shareholder's funds of £8m (Company: £12m) resulting in total shareholder's funds of £618m (Company: £614m) as at 31 December 2018.

## 2018 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 level of equity securities held.

Additional risk categories included in the solvency calculation are credit risk and operational risk.

Group risk is not included as a separate element of the solvency calculation as the failure of FMI's parent, Factory Mutual Insurance Company ("FMIC"), does not fall within the 99.5% confidence level. The "AA" (Very Strong) Fitch rating, "A+" (Superior) AM 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 2018 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:

| | 2018 SF £000s | 2017 SF £000s | Variance |
|---|---|---|---|
| Eligible own funds | 593,991 | 607,881 | (13,890) |
| Solvency capital requirement (SCR) | 306,976 | 395,392 | (88,416) |
| Surplus | 287,015 | 212,489 | 74,526 |
| *Coverage of SCR* | *193.5%* | *153.7%* | *39.8%* |

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

The decrease in the SCR is driven by two main factors; a decrease in market risk as a result of the fall in the market value of investments, particularly equities, together with a fall in counterparty risk due to a reduction in debtors outstanding. The decrease in debtors is as a result of the receipt of the reinsurance following the settlement of several large losses during the year.

The method of calculation for the SF is set out in the Commission Delegated Regulations (Delegated Acts) which are made by the European Commission 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. 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 despite this significant conservatism.

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 in 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 because the cash and bond balances held are sufficient to cover the capital requirement.

The ORSA filed with the PRA in 2018, in respect of the 2017 year end, had a capital charge of £127m (2017: £146m) which is measured against available funds of £622m (2017: £579m) under UK GAAP to give coverage of 490% (2017: 397%).

Coverage under the SF is lower as compared to the ORSA, however management are comfortable with the capital coverage due to the Company's approach to managing capital which involves managing assets, liabilities and risks in a coordinated way, and taking appropriate action to maintain the capital position of the Company in the 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.

All balances used within this report are determined according to the valuation rules set out in the Delegated Acts. The key inputs and parameters for the calculations within the ORSA have been reviewed and agreed by the RMC. All risks on the risk register have been reviewed, included in the risk assessment and, where necessary, added to the modelling process. Emerging risks are considered at every RMC and discussed at Board meetings. Any risks arising during the year that were deemed to be significant have been included in the ORSA capital modelling. This was achieved by either changing parameters within the model or designing specific scenario tests to consider these risks.

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

## Outlook for 2019

From 1 January 2018, the EEA business in mainland Europe and Ireland, together with the non-UK insurance business previously written by the UK, was transitioned to FMIE on a renewals basis. This transition significantly reduced the 2018 premium from 2017 levels. The remaining impact of the transition, together with market conditions, is expected to lead to a reduction in premium from 2018 levels. The Group's exposure to the Eurozone has reduced following the transition and is limited to Euro currency holdings as the Group does not hold any Euro denominated debt securities. Furthermore, it is the Group's policy to convert excess currency into US Dollars, the functional currency of the parent company.

# Directors' Report

## Directors

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

| | |
|---|---|
| Philip Johnson | Managing Director |
| Rachel Cope | |
| Jonathan W. Hall | |
| Omar F. Hameed | |
| Kevin S. Ingram | |
| Christopher Johnson | |
| Thomas A. Lawson | |
| Natalie Spotswood | |
| Stefano Tranquillo | Appointed 1 April 2018 |
| Thomas S. Keevil | |
| Kenneth Lever | Resigned 19 July 2018 |
| 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

Rachel Cope
Finance Director
17 April 2019

# 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 2018:

- The ‘Valuation for Solvency Purposes’ and ‘Capital Management’ sections of the Solvency and Financial Condition Report of the Company as at 31 December 2018, (‘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 2018 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 on which they are based, 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
London
18 April 2019

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. In 2018 FMI had branch operations in Australia, Belgium, France, Germany, Italy, the Netherlands, New Zealand, Spain, Sweden and Switzerland. The remaining branches in Asia Pacific (see glossary) were de-licenced and de-registered during 2017, the insurance business having been transitioned to 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. Switzerland remains an active branch of FMI however is expected to transition to FMIE during 2020. 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 and Switzerland. FMI also aims to assist in servicing the needs of those clients headquartered throughout the world that have locations in the United Kingdom and Switzerland.

FMI has a stable book of business despite the global restructure and there are no plans to expand into any 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 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 performed by the PRA while an external audit of the SCR, technical provisions and selected quantitative reporting templates ("QRTs"), is provided by Ernst & Young ("EY") on an annual basis. Willis Towers Watson ("WTW") is contracted to complete a back testing and validations audit on the technical provisions on an annual basis.

Contact details for these companies 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 all 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 2018 the Company recognised an underwriting profit, offset by realised and unrealised losses on investments. Premium income decreased from 2017, as a result of the transition to FMIE. However, the premium retention in the year for non-transitioning business was 109.7% and new business was 3.2%, both indicating that FMI remained strong in a challenging market.

The Company UK GAAP annual results have been provided below:

| | 2018<br>£000s | 2017<br>£000s | Variance |
|---|---:|---:|---:|
| Gross premium written | 170,047 | 680,488 | (510,573) |
| Net premium written | 33,962 | 184,265 | (150,141) |
| | | | |
| Gross premium earned | 325,938 | 688,950 | (379,212) |
| Net premium earned | 79,459 | 178,673 | (99,146) |
| | | | |
| Gross claims incurred | 112,648 | 930,678 | (780,247) |
| Net claims incurred | 48,351 | 167,815 | (119,464) |
| | | | |
| Gross loss ratio | 35% | 135% | (96%) |
| Net loss ratio | 61% | 94% | (33%) |
| | | | |
| Net expenses | 9,118 | 55,527 | (46,409) |
| Expense ratio | 11% | 31% | (20%) |
| | | | |
| Combined ratio | 72% | 125% | (53%) |
| | | | |
| Investment (charges)/returns | (32,833) | 87,986 | (120,819) |

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 decrease in premium in the year is driven by the transition of business to FMIE.

The decrease in claims is primarily attributable to there being one significant loss event in 2017, with there being no significant loss events during 2018. In addition the transition of business to FMIE has reduced FMI's level of exposure.

The decrease in net expenses is driven by the transition of business to FMIE, offset by a gain on foreign exchange in 2018 of £39m compared to the loss of £49m incurred in 2017.

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:

| 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 table above is included within note 2 on page 29 of the UK GAAP FS.

| 2017 | 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 | 4,374 | 4,335 | (2,747) | (1,333) | 2,068 | 2,323 | 4,025 |
| Fire and Other | 633,445 | 642,685 | (820,714) | (193,102) | 313,823 | (57,308) | 582,962 |
| Assumed | 42,669 | 41,930 | (107,217) | (13,007) | 65,222 | (13,072) | 39,268 |
| **Total** | **680,488** | **688,950** | **(930,678)** | **(207,442)** | **381,113** | **(68,057)** | **626,255** |

The underwriting policy and guidelines within FMI relies 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 engineering reports and the clients' commitment to risk management as well as the potential exposures. FMI's key aim is to retain the current 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 | 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** |

The table above is included within note 2 on page 29 of the UK GAAP FS.

| | Direct £000s | Assumed £000s | 2017 Total £000s |
|---|---|---|---|
| Resulting from contracts concluded: | | | |
| In the EU member state of its head office | 367,686 | 28,493 | 396,179 |
| In the other EU member states | 258,438 | 14,176 | 272,614 |
| In other countries | 11,695 | - | 11,695 |
| **Total** | **637,819** | **42,669** | **680,488** |

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 treaty reinsurance (in house) are utilised. If the risk exceeds the treaty agreement, 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, but some additional deposits are held in local currencies as required by local regulatory authorities. The following table, included within note 10 on page 36 of the UK GAAP FS, reflects the equity and bond investments by type at fair value and cost:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Fair Value £000s | Cost £000s | Fair Value £000s | Cost £000s |
| Equity investments | 309,808 | 266,986 | 385,869 | 288,146 |
| Debt securities | 115,924 | 118,056 | 117,305 | 117,163 |
| **Total** | **425,732** | **385,042** | **503,174** | **405,309** |

In 2018 investment market valuations fell during the last quarter of the year resulting in a reduction in the value of FMI's investment portfolio for the year. Looking ahead, FMI's investment strategy remains unchanged and the Company continues to hold a significant amount of equities. The management of FMI's investments is outsourced to FMIC, with oversight by the FMI Finance Director, 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 30 of the UK GAAP FS, reflects the investment performance for the year:

| | 2018<br>£000s | 2017<br>£000s |
|---|---|---|
| Net charge on defined benefit pension scheme | (395) | (1,441) |
| Net income from investments | 14,757 | 13,856 |
| Net interest paid on bank accounts and fixed deposits | (240) | (44) |
| Realised gain on investments | 10,222 | 38,426 |
| Investment income | 24,344 | 50,797 |
| Unrealised (loss)/gain on investments | (57,176) | 37,189 |
| **Total investment return** | **(32,832)** | **87,986** |

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.

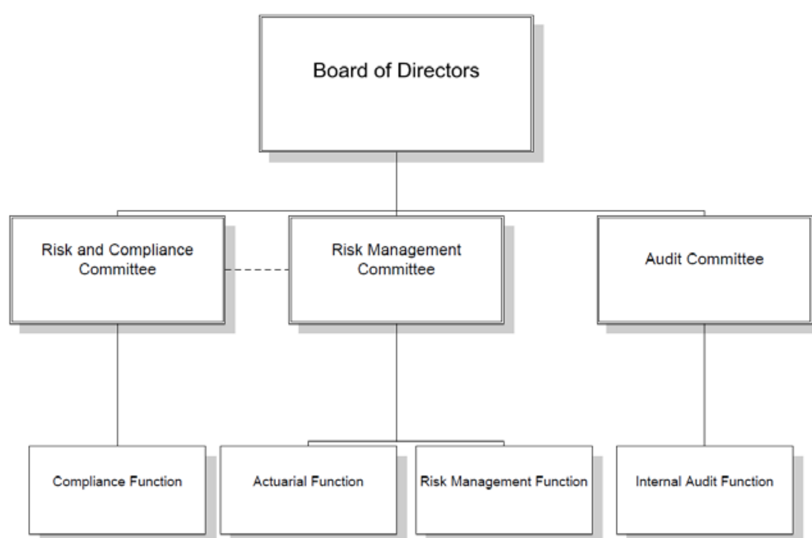
## A.5 Any Other Information

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 an INED), 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 three members (including an INED, who chairs that Committee). It 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 three executive directors and also 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 six 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.

The INEDs are paid a retainer 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. The premium retention has been adjusted to exclude the business transferred to FMIE.

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

Each of these KRAs are evaluated and targets are set at the beginning of each period and approved by the Board.

The KRAs and incentive plan 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 31 of the UK GAAP FS reflects the remuneration to the directors:

| | 2018<br>£000s | 2017<br>£000s |
|---|---|---|
| Aggregate remuneration in respect of qualifying services | 586 | 2,025 |
| Aggregate amounts receivable under long term incentive plans | 178 | 461 |
| **Total** | **764** | **2,486** |

The aggregate remuneration and amounts receivable under long term incentive schemes of the highest paid director was £364,000 in 2018 (2017: £1,978,000). 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' policy 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 policy 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 policy and has ultimate responsibility for ensuring the relevant employees are identified and meet the requirements of the policy.

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 in the LPR. 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 independent oversight of the Company's risks and risk management. 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 Director;
- 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, high rated risks are monitored monthly.

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 claim occurs at a higher level than anticipated, 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 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 will 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 which are 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 February in order to have the results available for the Board meeting in July and 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 capital and solvency position;
- Finalise ORSA documentation;
- Review of ORSA report;
- Independent review performed; and
- Review and sign off ORSA.

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. As FMI is 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. Thus, 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 executive 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 a 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 every aspect of 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 otherwise 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 to that, there are various 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 have the opportunity to communicate upwards to management. Recent company initiatives have included focusing on increased efficiency and led to a significant input from employees about working practices within their departments.

Management also communicate externally to clients, brokers, vendors and the general public through 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 all 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 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 with regulators and remains in good standing in the territories where FMI is licensed to write insurance and reinsurance business.

The risk appetite framework in place 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 constant review by the RMC in order 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 of FMI's home and host regulator can lead to the loss of, or a substantial restriction to, its insurance licences. Appropriate systems and controls must, therefore, be maintained and monitored at all times 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 supports 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 auditable 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 surplus.

(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 constructed 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. They met 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<br>Time since the last audit<br>Complexity of the process<br>Automated or manual process<br>Management/personnel competency<br>Degree of change in the audit area<br>Susceptibility to fraud | Financial misstatement effect<br>Impact on business objectives<br>Solvency impact<br>Service to clients<br>Employee relations<br>Regulatory |

On an annual basis, this allows the ranking of auditable areas as high, medium or low risk which therefore determines whether to include them 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.

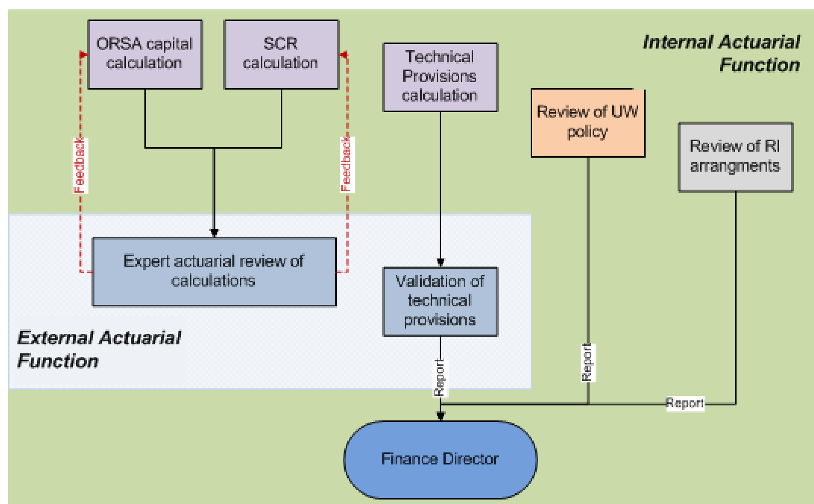
The manager receiving the report is responsible for ensuring that progress is made towards correcting any unsatisfactory conditions. Internal Audit is responsible for determining whether action taken is adequate to resolve audit findings. If the action is not adequate, Internal Audit will inform management 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 the riskiest areas are audited more frequently than the lower risk areas.

## B.6 Actuarial Function

The Head of the Actuarial function is the Finance Director 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. This 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 Finance Director and works closely with the FMI staff of the Actuarial function as required. Additional ad-hoc work may develop during the year, outside the predetermined responsibilities, and will be agreed with the Finance Director 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 Finance Director on an annual basis.

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

The review concluded that overall FMI’s technical provisions processes and results meet the validation requirements as set out in Article 264 of the Delegated Act. There were recommendations made as part of the review. The recommendations included increasing the volume of sensitivity testing, reviewing the ENID provision for reasonableness and adding documentation around expert judgements. FMI has committed to completing this review 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. For details of the scope and limitations of their work, please refer to the Auditors Report on page 8.

## B.7 Outsourcing

There is a comprehensive Outsourcing Policy in place within FMI which is used to ensure all outsourcing contracts do not add 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, the investment management is outsourced to the FMIC team, however the investment strategy and asset allocation between bonds and equities is approved by the FMI Board. Investment reports are received monthly by FMI, reviewed and any changes or issues are acted on immediately. Quarterly meetings are held between the FMI Finance Director, 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 the market risk, and results in an increased exchange risk when reporting in GBP, compared to if FMI were holding the assets in GBP. The assets have been included in USD in the SF model and management together with the Board, consider this to have 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. 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 above; 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. 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 £24m (2017: £35m). The following table shows the main elements of the non-life underwriting capital charge that forms part of the SF SCR:

| | 2018<br>£000s | 2017<br>£000s | Variance<br>£000s |
|---|---|---|---|
| Lapse risk | 15 | 28 | (13) |
| Catastrophe risk | 8,438 | 9,667 | (1,229) |
| Premium & Reserve risk | 20,915 | 31,364 | (10,449) |
| Diversification | (4,937) | (6,006) | 1,069 |
| **Total underwriting risk** | **24,431** | **35,053** | **(10,622)** |

The decrease in underwriting risk is driven by the drop in earned premium as a result of the transition of the insurance business of the Company's EU branches to FMIE.

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.

## 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 losses in any one trading year.

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 large range of currencies on a daily basis, a certain level of market risk is unavoidable. Strict guidelines are in place regarding levels of cash, investment practices and trading in different currencies, 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 the market risk:

| | 2018<br>£000s | 2017<br>£000s | Variance<br>£000s |
|---|---|---|---|
| Interest rate risk | 26,038 | 21,289 | 4,749 |
| Equity risk | 148,622 | 221,503 | (72,881) |
| Spread risk | 9,678 | 9,722 | (44) |
| Currency risk | 166,309 | 156,708 | 9,601 |
| Concentration risk | 46,094 | 47,962 | (1,868) |
| Diversification | (124,250) | (134,062) | 9,812 |
| **Total market risk** | **272,491** | **323,122** | **(50,631)** |

Market risk has fallen significantly in 2018 due primarily to the fall in equity and bond values in the last quarter of 2018. This has been partially offset by the increase in currency and interest rate risk as a result of the changes in spot rates and the USD exchange rate.

The market risk is primarily driven by the equity and currency risk. The currency risk charge is calculated for each currency in which the Company has assets and/or liabilities. Due to the significant level of equities held in USD, the charge is significantly higher than some of the other risk areas. Investments are also the key driver of the concentration risk capital 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, due to 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.

## C.3 Credit Risk

This is a lower risk area for FMI due to the high 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, 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 £48m (2017: £90.7m).

The decrease in 2018 is due mainly to significantly lower claims reserves at the end of the year as a result of settling a number of large claims during 2018.

## 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 £5.8m at December 2018 (2017: £5.9m). Refer to S.23.01.01 within the Appendices for further detail.

There is also a pre-funding arrangement in place with FMIC, which means that, if required, the reinsurance due from FMIC is paid in advance, to fund the payment to the client. This facility is considered on a claim by claim basis.

## 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, they are being adequately controlled and mitigation is in place, if deemed necessary.

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.

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 2018 is £9.8m (2017: £24.8m).

The charge is calculated on the higher of 3% of gross earned premium and 3% of technical provisions. In 2017 due to the high level of claims outstanding the charge was generated by the technical provisions, however due to the settlement of claims during 2018 the charge for this year is generated by the premium (as in 2016). The charge generated from claims reserves this year would also have been £9.8m.

## 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 2018, FMIC has $11.8bn in capital and has had the same robust business model for over 180 years.

The largest risk scenario modelled for FMIC is a Pacific Northwest earth movement which would leave sufficient surplus to cover the second largest risk of a US windstorm. However, 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 the 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 over $2.2bn of available cash on their balance sheet at 31 December 2018. 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.

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 and therefore it is not separately modelled within the ORSA.

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.

The ORSA model has been built to take into consideration the fact that the failure of FMIC will also 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 account for the stop loss treaty. Therefore, the counterparty default charge is calculated from the balances and ratings and does not include any further adjustments for the stop loss. The Board understands that this generates a higher SCR however 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 FMI 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.

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:

| | 2018 Final Submission £000s | 2018 Convert USD Equities to USD Bonds £000s | 2018 Reduce All Ratings by 1 Credit Step £000s | 2018 Reduce Only FMIC by 1 Credit Step £000s | 2018 Adjust market risk parameters £000s |
|---|---|---|---|---|---|
| Non-Life risk | 24,431 | 24,431 | 24,431 | 24,431 | 24,431 |
| Market risk | 272,491 | 206,624 | 272,491 | 272,491 | 294,884 |
| Counterparty risk | 48,399 | 48,399 | 71,318 | 66,515 | 48,399 |
| Operational risk | 9,829 | 9,829 | 9,829 | 9,829 | 9,829 |
| Diversification | (48,174) | (46,251) | (60,470) | (58,005) | (48,627) |
| **Total SCR** | **306,976** | **243,032** | **317,599** | **315,261** | **328,916** |
| **Solvency II Available Own Funds** | **593,991** | **593,991** | **593,991** | **593,991** | **593,991** |
| **Solvency ratio** | **193.5%** | **244.4%** | **187.0%** | **188.4%** | **180.6%** |

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 £243m and an increase in the solvency ratio to 244.4%, 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. This factor 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 -6.34% (as at December 2018) to 0% increased both the market risk and the overall capital charge by £22m reducing coverage to 181%. As at March 2019 the SA stands at -2.2% and has increased steadily since December.

EIOPA state that the SA can vary between -10% and 10%. If EIOPA were to increase the SA to the maximum 10% the market risk capital charge would be £332m and the resulting SCR would be £365m with a solvency ratio of 162.5%. In contrast should EIOPA reduce it to the minimum -10% the resulting SCR would reduce to £295m with a solvency ratio of 201%.

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 Catastrophe risk calculation. The parent company reinsures 75% of all claims over £650k and up to the Excess of Loss treaty ("EOL") attachment point of $550m. 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 year. Reducing all credit ratings by one point only reduces the coverage by a further 1.4%.

# 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, 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)** |

As at December 31, 2017

| | UK GAAP £000s | Solvency II £000s | Difference £000s |
|---|---|---|---|
| Deferred acquisition costs | 3,079 | - | (3,079) |
| Deferred tax assets | 2,002 | 5,142 | 3,140 |
| Pension benefit surplus | 3,623 | 3,623 | - |
| Property, plant & equipment | 4,428 | 4,428 | - |
| Investments | 503,224 | 503,922 | 698 |
| Reinsurance recoverables | 615,791 | 720,792 | 105,001 |
| Insurance receivables | 133,189 | 80,321 | (52,868) |
| Reinsurance receivables | 169,788 | 6,998 | (162,790) |
| Receivables (trade, not insurance) | 24,143 | 24,142 | - |
| Cash and cash equivalents | 171,633 | 171,633 | - |
| All other assets | 3,072 | 2,326 | (746) |
| **Total assets** | **1,633,972** | **1,523,327** | **(110,645)** |

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:

**Financial Investments**

Financial investments comprise exchange traded equity instruments of £310m (2017: £386m) and high grade debt securities of £116m (2017: £117m).

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.

#### 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.

#### 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

Receivables in the balance sheet are comprised of other debtors.

#### 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.

#### 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 a risk modelling team based at FMIC. 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 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 as far as possible. 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 run 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 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 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 2017.

| | UK GAAP £000s | Solvency II £000s | Difference £000s |
|---|---|---|---|
| Premium Provision: | | | |
| Gross | 240,120 | 258,553 | 18,433 |
| Reinsurance | 173,428 | 130,603 | (42,825) |
| Net | 66,692 | 127,950 | 61,258 |
| | | | |
| Claims Provision: | | | |
| Gross | 579,145 | 566,576 | (12,569) |
| Reinsurance | 442,363 | 590,189 | 147,826 |
| Net | 136,782 | (23,613) | (160,395) |
| | | | |
| **Total best estimate – gross** | **819,265** | **825,129** | **(5,864)** |
| **Total best estimate – net** | **203,474** | **104,338** | **(99,136)** |
| | | | |
| **Risk margin** | **-** | **15,510** | **(15,510)** |

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 2017 there was a large debtor arising from a reinsurance balance which under Solvency II regulations is included within the technical provisions as a future cash in-flow. Therefore, last year the net provisions were significantly lower than the UK GAAP balance. In 2018 the balance was not so significant and therefore the provisions were much more in line with 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** | **5,224** | **98,690** | **962** | **16,898** | **121,774** |
| Gross – Direct business | 5,224 | 98.690 | | | 103,914 |
| Gross – accepted | | | 962 | 16,898 | 17,860 |
| Reinsurance | (452) | (48,504) | (66) | (15,335) | (64,357) |
| **Net Best Estimate** | **4,772** | **50,186** | **896** | **1,563** | **57,417** |

| Claims Provisions £000s | MAT | Fire & other (Property) | Non-proportional MAT | Non-proportional Property | Total Non-life |
|---|---|---|---|---|---|
| **Gross – Total** | **5,785** | **194,032** | **737** | **5,315** | **205,869** |
| Gross – Direct business | 5,785 | 194,032 | | | 199,817 |
| Gross – accepted | | | 737 | 5,315 | 6,052 |
| Reinsurance | (3,156) | (157,935) | - | (5,223) | (166,314) |
| **Net Best Estimate** | **2,629** | **36,097** | **737** | **92** | **39,555** |

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. There have been no material changes to the basis of measurement.

## 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 valuation used in the FS.

| 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 | - |
| All other liabilities | 9,280 | 6,604 | (2,676) |
| **Total liabilities** | **444,547** | **432,626** | **(11,921)** |

| 2017 | UK GAAP £000s | Solvency II £000s | Difference £000s |
|---|---:|---:|---:|
| Technical provisions | 819,265 | 840,639 | 21,374 |
| Pension benefit obligation | 13,027 | 13,027 | - |
| Insurance payables | 1,471 | 1,471 | - |
| Reinsurance payables | 106,970 | - | (106,970) |
| Payables (trade, not insurance) | 52,823 | 52,823 | - |
| All other liabilities | 18,184 | 7,486 | (10,698) |
| **Total liabilities** | **1,011,740** | **915,446** | **(96,294)** |

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 27 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 cash out-flow from these creditors is included in the technical provisions.

Payables (trade, not insurance)

Other creditors are recorded at transaction price. Due to the short term nature of the balances they are held at an undiscounted amount.

All Other Liabilities

Additional information on other liabilities is included in Note 19 and Note 20, on page 40 of the UK GAAP FS. The uncertainty of liability valuations and judgments are as set out in Note 1, page 23, of the UK GAAP FS. All other liabilities are valued at transaction price, whichever is relevant to the type of liability. 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 2019 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 2018.

| 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 | | | |
| Minimum Capital Requirement (MCR) | 76,744 | | | |
| Ratio of own funds to SCR | 193.5% | | | |
| Ratio of own funds to MCR | 764.7% | | | |

| 2017 | Total £000s | Tier 1 £000s | Tier 2 £000s | Tier 3 £000s |
|---|---|---|---|---|
| Ordinary share capital | | 355,000 | - | - |
| Share premium account | | 978 | - | - |
| Reconciliation reserve | | 246,761 | - | - |
| Net deferred tax assets | | - | - | 5,142 |
| Total available own funds | 607,881 | 602,739 | - | 5,142 |
| SCR | 395,392 | | | |
| MCR | 98,848 | | | |
| Ratio of own funds to SCR | 153.7% | | | |
| Ratio of own funds to MCR | 609.8% | | | |

As at 31 December 2018 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 be in compliance with the Solvency II Directive.

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

As at 31 December 2018 the total UK GAAP available funds were £614m (2017: £622m) and the Solvency II available funds were £594m (2017: £608m). 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 represents a contributing factor 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 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 and 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 modeling 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 2017 breakdown:

| | 2018 £000s | 2017 £000s | Variance £000s |
|---|---|---|---|
| **Risk Modules:** | | | |
| Non-Life | 24,431 | 35,053 | (10,622) |
| Market | 272,491 | 323,122 | (50,631) |
| Counterparty | 48,399 | 90,737 | (42,338) |
| Operational | 9,829 | 24,754 | (14,925) |
| Diversification | (48,174) | (78,274) | 30,100 |
| **Total SCR** | **306,976** | **395,392** | **(88,416)** |
| | **SCR** | **SCR** | |
| Capital Requirements | 306,976 | 395,392 | (88,416) |
| Eligible Own Funds | 593,991 | 607,881 | (13,890) |
| Excess Eligible Funds Over Required | 287,015 | 212,489 | 74,526, |
| Solvency Ratio | 193.5% | 153.7% | 39.8% |

Using the SF approach the SCR is £307m (2017: £395m). The current capital levels give a coverage of 194% (2017: 154%).

The MCR is calculated as prescribed in the Delegated Acts, using inputs of net BEL 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 £77m (2017: £99m), which provides a coverage of 765% (2017: 610%) when compared to eligible capital. Tier 3 own funds are not eligible capital for the MCR.

No significant developments to these values are expected over the time horizon of the planning period.

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. The compliance is monitored continuously to ensure there is no period where FMI lacks sufficient capital to cover the SCR.

## E.6 Any Other Information

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

# Appendices

## Glossary

| | |
|---|---|
| Asia Pacific | Asia Pacific business, including Australia, Hong Kong, Labuan, New Zealand and Singapore |
| Board | FMI Board of Directors |
| COSO | Committee of Sponsoring Organisations of the Treadway Commission |
| DAC | Deferred Acquisition Costs |
| 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 |
| 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 Board Committee |
| SCR | Solvency Capital Requirement, regulatory capital amount required |
| 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 restricts FMI's combined ratio to 125% in any calendar year |
| Staff Underwriting | Senior underwriters based in corporate offices |
| 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 2018 |
| 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 | 0 |
| R0040 | Deferred tax assets | 7,153 |
| R0050 | Pension benefit surplus | 0 |
| R0060 | Property, plant & equipment held for own use | 6,656 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 426,431 |
| R0080 | *Property (other than for own use)* | 0 |
| R0090 | *Holdings in related undertakings, including participations* | 0 |
| R0100 | *Equities* | 129,554 |
| R0110 | *Equities - listed* | 129,554 |
| R0120 | *Equities - unlisted* | |
| R0130 | *Bonds* | 116,623 |
| R0140 | *Government Bonds* | 65,488 |
| R0150 | *Corporate Bonds* | 29,080 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 22,054 |
| R0180 | *Collective Investments Undertakings* | 180,254 |
| 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: | 230,671 |
| R0280 | *Non-life and health similar to non-life* | 230,671 |
| R0290 | *Non-life excluding health* | 230,671 |
| 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 | 21,985 |
| R0370 | Reinsurance receivables | 5,999 |
| R0380 | Receivables (trade, not insurance) | 25,478 |
| R0390 | Own shares (held directly) | 0 |
| 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 | 299,846 |
| R0420 | Any other assets, not elsewhere shown | 2,398 |
| R0500 | **Total assets** | 1,026,617 |

**S.02.01.02**

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Liabilities** | C0010 |
| R0510 | Technical provisions - non-life | 336,940 |
| R0520 | *Technical provisions - non-life (excluding health)* | 336,940 |
| R0530 | *TP calculated as a whole* | 0 |
| R0540 | *Best Estimate* | 327,643 |
| R0550 | *Risk margin* | 9,297 |
| 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 | 17,208 |
| 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 | 2,569 |
| R0830 | Reinsurance payables | 0 |
| R0840 | Payables (trade, not insurance) | 69,303 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 6,606 |
| R0900 | **Total liabilities** | 432,626 |
| | | |
| R1000 | **Excess of assets over liabilities** | 593,991 |

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 | | | | | | 4,023 | 125,561 | | | | | | | | | | 129,584 |
| R0120 | Gross - Proportional reinsurance accepted | | | | | | 0 | 0 | | | | | | | | | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | 1,248 | 39,215 | 40,463 |
| R0140 | Reinsurers' share | | | | | | 2,968 | 93,292 | | | | | | | | 1,228 | 38,597 | 136,085 |
| R0200 | Net | | | | | | 1,055 | 32,269 | | | | | | | | 20 | 618 | 33,962 |
| | **Premiums earned** | | | | | | | | | | | | | | | | | |
| R0210 | Gross - Direct Business | | | | | | 8,923 | 279,305 | | | | | | | | | | 288,227 |
| R0220 | Gross - Proportional reinsurance accepted | | | | | | 0 | 0 | | | | | | | | | | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | 1,163 | 36,547 | 37,710 |
| R0240 | Reinsurers' share | | | | | | 6,722 | 211,277 | | | | | | | | 878 | 27,601 | 246,478 |
| R0300 | Net | | | | | | 2,201 | 68,027 | | | | | | | | 285 | 8,946 | 79,459 |
| | **Claims incurred** | | | | | | | | | | | | | | | | | |
| R0310 | Gross - Direct Business | | | | | | 7,636 | 93,641 | | | | | | | | | | 101,277 |
| R0320 | Gross - Proportional reinsurance accepted | | | | | | 0 | 0 | | | | | | | | | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | 686 | -444 | 242 |
| R0340 | Reinsurers' share | | | | | | 2,100 | 59,363 | | | | | | | | 0 | 468 | 61,931 |
| R0400 | Net | | | | | | 5,536 | 34,278 | | | | | | | | 686 | -912 | 39,588 |
| | **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** | | | | | | 1,067 | 17,752 | | | | | | | | 172 | 2,995 | 21,986 |
| R1200 | **Other expenses** | | | | | | | | | | | | | | | | | -620 |
| R1300 | **Total expenses** | | | | | | | | | | | | | | | | | 21,366 |

**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 | | | AE | DE | CH | BH | FR | |
| | | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 |
| | **Premiums written** | | | | | | | |
| R0110 | Gross - Direct Business | 74,271 | 4 | 9,641 | 9,462 | 1 | 5,340 | 98,718 |
| R0120 | Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | 25 | 18,631 | 0 | 132 | 9,815 | 69 | 28,672 |
| R0140 | Reinsurers' share | 71,137 | 13,013 | 8,572 | 9,436 | 7,757 | 4,121 | 114,035 |
| R0200 | Net | 3,158 | 5,622 | 1,069 | 158 | 2,059 | 1,288 | 13,355 |
| | **Premiums earned** | | | | | | | |
| R0210 | Gross - Direct Business | 163,602 | 9 | 21,237 | 20,843 | 1 | 11,762 | 217,455 |
| R0220 | Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | 23 | 17,363 | 0 | 123 | 9,147 | 64 | 26,721 |
| R0240 | Reinsurers' share | 128,844 | 23,569 | 15,526 | 17,090 | 14,049 | 7,464 | 206,542 |
| R0300 | Net | 34,781 | -6,197 | 5,711 | 3,876 | -4,900 | 4,363 | 37,634 |
| | **Claims incurred** | | | | | | | |
| R0310 | Gross - Direct Business | 65,487 | -8 | -12,500 | 962 | 0 | 5,976 | 59,916 |
| R0320 | Gross - Proportional reinsurance accepted | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | 165 | -1,093 | 43 | 0 | -1,421 | -156 | -2,461 |
| R0340 | Reinsurers' share | 46,056 | -920 | -14,312 | 1,248 | -1,187 | 49 | 30,934 |
| R0400 | Net | 19,597 | -181 | 1,855 | -286 | -234 | 5,770 | 26,521 |
| | **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 | 0 | 0 |
| R0550 | **Expenses incurred** | 12,600 | 2,127 | 1,635 | 1,620 | 1,120 | 914 | 20,015 |
| R1200 | **Other expenses** | | | | | | | -465 |
| R1300 | **Total expenses** | | | | | | | 19,551 |

**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 | | | | | | 5,224 | 98,690 | | | | | | | | 961 | 16,898 | 121,774 |
| R0140 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | 451 | 48,504 | | | | | | | | 66 | 15,335 | 64,357 |
| R0150 | **Net Best Estimate of Premium Provisions** | | | | | | 4,773 | 50,187 | | | | | | | | 895 | 1,563 | 57,417 |
| | **Claims provisions** | | | | | | | | | | | | | | | | | |
| R0160 | Gross | | | | | | 5,784 | 194,032 | | | | | | | | 737 | 5,315 | 205,869 |
| R0240 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | 3,156 | 157,935 | | | | | | | | 0 | 5,223 | 166,314 |
| R0250 | **Net Best Estimate of Claims Provisions** | | | | | | 2,628 | 36,098 | | | | | | | | 737 | 92 | 39,555 |
| R0260 | **Total best estimate - gross** | | | | | | 11,008 | 292,723 | | | | | | | | 1,699 | 22,213 | 327,643 |
| R0270 | **Total best estimate - net** | | | | | | 7,401 | 86,284 | | | | | | | | 1,632 | 1,655 | 96,972 |
| R0280 | **Risk margin** | | | | | | 312 | 8,306 | | | | | | | | 48 | 630 | 9,297 |
| | **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** | | | | | | 11,321 | 301,029 | | | | | | | | 1,747 | 22,844 | 336,940 |
| R0330 | **Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total** | | | | | | 3,608 | 206,438 | | | | | | | | 66 | 20,559 | 230,671 |
| R0340 | **Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total** | | | | | | 7,713 | 94,590 | | | | | | | | 1,681 | 2,285 | 106,269 |

**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)

| | Year | C0010<br>0 | C0020<br>1 | C0030<br>2 | C0040<br>3 | C0050<br>4 | C0060<br>5 | C0070<br>6 | C0080<br>7 | C0090<br>8 | C0100<br>9 | C0110<br>10 & + | C0170<br>In Current year | C0180<br>Sum of years (cumulative) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R0100 | Prior | | | | | | | | | | | 0 | 0 | 0 |
| R0160 | 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 0 |
| R0170 | 2010 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 | 0 |
| R0180 | 2011 | 409,959 | 371,461 | 217,403 | 11,787 | -283 | -7,104 | -4 | 109 | | | | 109 | 1,003,328 |
| R0190 | 2012 | 119,109 | 219,396 | 45,399 | 5,210 | 450 | 2,248 | -137 | | | | | -137 | 391,674 |
| R0200 | 2013 | 135,812 | 209,216 | 91,000 | 21,446 | 2,094 | -216 | | | | | | -216 | 459,354 |
| R0210 | 2014 | 128,452 | 252,137 | 87,718 | 8,955 | 3,446 | | | | | | | 3,446 | 480,706 |
| R0220 | 2015 | 106,945 | 154,722 | 68,837 | 5,859 | | | | | | | | 5,859 | 336,362 |
| R0230 | 2016 | 88,791 | 134,421 | 63,002 | | | | | | | | | 63,002 | 286,215 |
| R0240 | 2017 | 391,930 | 386,697 | | | | | | | | | | 386,697 | 778,627 |
| R0250 | 2018 | 25,594 | | | | | | | | | | | 25,594 | 25,594 |
| R0260 | | | | | | | | | | | | Total | 484,353 | 3,761,859 |

**Gross Undiscounted Best Estimate Claims Provisions**

(absolute amount)

| | Year | C0200<br>0 | C0210<br>1 | C0220<br>2 | C0230<br>3 | C0240<br>4 | C0250<br>5 | C0260<br>6 | C0270<br>7 | C0280<br>8 | C0290<br>9 | C0300<br>10 & + | C0360<br>Year end (discounted data) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R0100 | Prior | | | | | | | | | | | 0 | 0 |
| R0160 | 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 |
| R0170 | 2010 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,187 | | | 5,187 |
| R0180 | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 157 | | | | 157 |
| R0190 | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 567 | | | | | 567 |
| R0200 | 2013 | 0 | 0 | 0 | 0 | 0 | 90 | | | | | | 90 |
| R0210 | 2014 | 0 | 0 | 0 | 0 | 292 | | | | | | | 292 |
| R0220 | 2015 | 0 | 0 | 0 | 1,711 | | | | | | | | 1,711 |
| R0230 | 2016 | 0 | 0 | 6,382 | | | | | | | | | 6,382 |
| R0240 | 2017 | 0 | 52,600 | | | | | | | | | | 52,600 |
| R0250 | 2018 | 142,712 | | | | | | | | | | | 142,712 |
| R0260 | | | | | | | | | | | | Total | 209,699 |

**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 | 230,860 | 230,860 | | | |
| R0140 | Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0160 | An amount equal to the value of net deferred tax assets | 7,153 | | | | 7,153 |
| 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** | 593,991 | 586,838 | 0 | 0 | 7,153 |
| | **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 | 593,991 | 586,838 | 0 | 0 | 7,153 |
| R0510 | Total available own funds to meet the MCR | 586,838 | 586,838 | 0 | 0 | |
| R0540 | Total eligible own funds to meet the SCR | 593,991 | 586,838 | 0 | 0 | 7,153 |
| R0550 | Total eligible own funds to meet the MCR | 586,838 | 586,838 | 0 | 0 | |
| R0580 | **SCR** | 306,976 | | | | |
| R0600 | **MCR** | 76,744 | | | | |
| R0620 | **Ratio of Eligible own funds to SCR** | 193.50% | | | | |
| R0640 | **Ratio of Eligible own funds to MCR** | 764.67% | | | | |

| | **Reconcilliation reserve** | C0060 |
|---|---|---|
| R0700 | Excess of assets over liabilities | 593,991 |
| R0710 | Own shares (held directly and indirectly) | 0 |
| R0720 | Foreseeable dividends, distributions and charges | |
| R0730 | Other basic own fund items | 363,131 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| R0760 | **Reconciliation reserve** | 230,860 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | 5,817 |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 5,817 |

**S.25.01.21**

## Solvency Capital Requirement - for undertakings on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 272,491 | | |
| R0020 | Counterparty default risk | 48,399 | | |
| R0030 | Life underwriting risk | 0 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 24,431 | | |
| R0060 | Diversification | -48,175 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 297,147 | | |

| | **Calculation of Solvency Capital Requirement** | C0100 |
|---|---|---|
| R0130 | Operational risk | 9,829 |
| 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** | 306,976 |
| R0210 | Capital add-ons already set | 0 |
| R0220 | **Solvency capital requirement** | 306,976 |
| | **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 |

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

**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 | 12,552 |

| | | 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 | 7,401 | 1,763 |
| R0080 | Fire and other damage to property insurance and proportional reinsurance | 86,284 | 27,364 |
| 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 | 1,632 | 471 |
| R0170 | Non-proportional property reinsurance | 1,655 | 4,363 |

| | **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 | 12,552 |
| R0310 | SCR | 306,976 |
| R0320 | MCR cap | 138,139 |
| R0330 | MCR floor | 76,744 |
| R0340 | Combined MCR | 76,744 |
| R0350 | Absolute floor of the MCR | 2,222 |
| R0400 | **Minimum Capital Requirement** | 76,744 |