UIA (Insurance) Ltd

Solvency and Financial Condition Report (unaudited)

As at 31 December 2018

Note: 2017 audited.

Contents

Solvency and Financial Condition Report

1. Summary

1.1 Business and performance

UIA (Insurance) Ltd is a personal lines UK based mutual insurance Society, underwriting mostly Fire & Property Damage (Household) business. All lines of business are underwritten in the UK.

This is the Solvency and Financial Condition Report (SFCR) for UIA (Insurance) Ltd for the year ending 31 December 2018 (the Valuation Date). It is published on our website following review and approval by the Board.

Previously, our external auditor (Deloitte) was responsible for the audit of this report. However, the SFCR has not been audited this year, as the Society has utilised an exemption from this requirement, following changes to the PRAs policy on the external audit of the public disclosure requirement.

Our combined underwriting and investment performance generated a total pre-taxation loss of £8.1m for our members (2017: £1.4m). Combined with a reduction in our pension scheme deficit our Society's net assets reduced by £5.8m (2017: £0.8m reduction).

At the end of the year, we had total assets amounting to £73.0m (2017: £83.3m) of which £50.9m (2017: £60.7m) were investment fund assets. Retained profits totalled £30.5m (2017: £36.3m) providing 194% (2017: 173%) coverage of our Solvency Capital Requirement (SCR).

1.2 Systems of governance

We are governed by a Board that at the end of the year comprised of ten Directors; two Executive Directors and eight non-Executive Directors, two of whom are nominated by our trade union partners. The remaining six non-Executive Directors are independent. The Society has an Audit Committee, a Risk Committee and a Nominations and Remuneration Committee.

The day-to-day operations of the Company are managed by the Chief Executive Officer (CEO) under delegated authority from the Board. The CEO is assisted in fulfilling this responsibility by a variety of working groups. Each group is comprised of the Executive Director and senior managers of the Company and has specific terms of reference and reporting lines.

We are committed to ensuring all members of our Board, and other senior individuals within our Society, behave with integrity, honesty and skill. This commitment is documented in the Fitness and Propriety Policy. We meet the requirements of the Senior Insurance Managers Regime (SIMR) applying a variety of processes to ensure appropriate standards of fitness and propriety are met and maintained, both prior to appointment and on an ongoing basis thereafter.

The Board is accountable to the members of the Society for ensuring an appropriate system of internal control is maintained, and for reviewing its effectiveness. Taking account of the limitations in any system of control, the system is designed to limit rather than eliminate the risk of failure and, as such, can only provide reasonable but not absolute assurance against material misstatement or loss.

1.3 Risk profile

The risks associated with our SCR are:

- Underwriting;
- Market;
- Credit;
- Liquidity;
- Operational; and
- Pension.

These are considered individually in Section 4. Of those listed above, the most significant risk relates to the Society's share of the Unison defined benefit pension scheme. This is included in the Annual Report and Financial Statements with a liability of £8.5m. The Society's share of the overall Scheme's net liability is circa 5%; the scheme has a last man standing clause in place, which adds to the Society's risks. A strategic review of the pension provision across Unison is currently underway; the Society is represented in this strategic review.

1.4 Valuation for solvency purposes and capital management

The Society's solvency valuation is based on UK GAAP accounting standards and uses the Solvency II guidance and principles to translate the UK GAAP balance sheet into a Solvency II balance sheet. The main translation differences are the recalculation of the technical provisions using a best estimate approach as defined by the Solvency II Regulations.

As a mutual entity, our own funds are made up 100% of members' funds arising from retained profits from past underwriting and investment surpluses. As such, all capital is Tier 1 and there are no restrictions on the availability of our funds to support the SCR or Minimum Capital Requirement (MCR).

Our SCR is calculated using the standard formula basis, having reviewed the assumptions underlying the formula and assessed them as being appropriate for the firm. As at 31 December 2018, we have a solvency ratio of 194% (2017:173%), as shown below (£'000s).

Solvency category	2018	2017	Change
Market risk	9,941	15,749	(5,807)
Counterparty risk	2,144	1,323	821
Non-life underwriting risk	9,783	10,746	(964)
Diversification credit	-5,153	-6,035	882
Basic SCR	16,715	21,783	(5,068)
Operational risk	755	718	36
LACDT	269	-	(269)
SCR	**17,201**	**22,502**	**(5,301)**
Own funds	33,386	38,980	(5,594)
Surplus	16,186	16,478	
Solvency ratio	**194%**	**173%**	**21%**

2. Business & Performance

2.1 UIA's Business

This is the Solvency and Financial Condition Report (SFCR) for UIA (Insurance) Ltd for the year ending 31 December 2018 (the Valuation Date). It is published on our website following review and approval by the Board.

We are authorised and regulated by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'). Our Firm Reference Number is 110863, which you can use if you want to write to either regulator. The PRA is responsible for our financial supervision. You can contact the PRA by writing to Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA or by calling 0207 601-4878. The FCA is responsible for regulating our conduct. You can contact the FCA by writing to the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS or calling 0207 066-1000.

As a Category 5 firm, the Society does not have a named supervisor and is managed by the smaller insurer team. Both the PRA and the FCA operate a risk-based approach to supervision, which places emphasis on the need for regulated firms to have in place robust risk management frameworks.

UIA (Insurance) Ltd is a personal lines UK based mutual insurance Society. The Society underwrites three lines of business: Fire & Property Damage (Household and Home Emergency) and Legal (Before the Event and After the Event) Insurance. With the exception of household business, the other personal lines classes are 100% reinsured. All lines of business are underwritten in the UK.

The average number of full time equivalent employees including executive directors during 2018 was 147 (2017:146).

Our external auditor is Deloitte LLP, Statutory Auditor, Manchester, UK, responsible for the audit of the Society's Financial Statements. Previously, Deloitte were also responsible for the audit of this report. However, the SFCR has not been audited this year, as the Society has utilised an exemption from the requirement to have the SFCR audited, following changes to the PRAs policy on the external audit of the public disclosure requirement, set out in their Policy Statement PS25/18.

2.2 Underwriting performance

The 2018 underwriting losses of £7.5m (2017: £4.4m) have been primarily driven by a higher than expected loss ratio of 81% (2017: 67%). The increased loss ratio for 2018 is due to poor performance with our aggregator and other online business and the 2018 'Beast from the East' claims event.

2.3 Investment performance

Our net of tax investment performance, comprising investment income and realised and unrealised gains net of investment management expenses, was a loss of £0.2m (2017: profit of £3.6m). Further detail by asset class is contained on page 58 of the Society's Annual Report and Accounts.

2.4 Overall performance

The above underwriting and investment performance, combined with other income, increased the pre-taxation loss for our members to £8.1m (2017: £1.4m).

Our share of the UNISON defined pension benefit liability fell by £1.8m (2017: £1.1m fall). Combined with the above, our Society's net assets reduced over the course of 2018 by £5.8m (2017: £0.8m reduction).

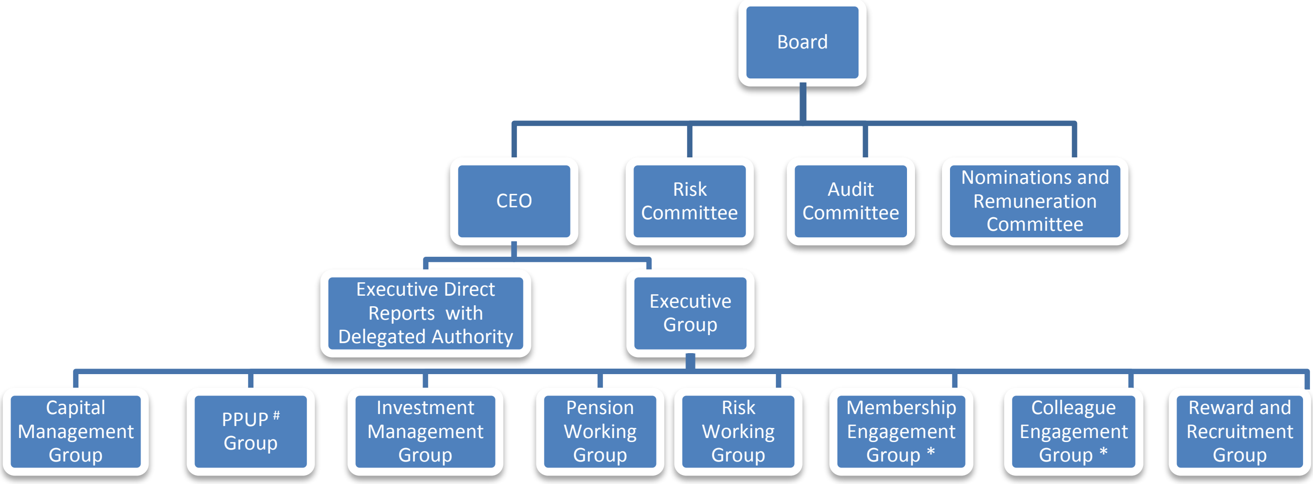
At the end of the year, we had total assets amounting to £73.0m (2017: £83.3m) of which £50.9m (2017: £60.7m) were investment fund assets. The decrease in total assets is primarily explained by the underwriting losses noted above.

Retained profits at the end of the year totalled £30.4m (2017: £36.3m), providing 194% (2017: 173%) coverage of our Solvency Capital Requirement (SCR).

3. System of Governance

3.1 Governance structure, roles and responsibilities

The Society is governed by the Board, which has delegated authority to the CEO for day-to-day operational matters. The diagram below shows our governance structure.



Product, Pricing, underwriting and partnerships

* The Membership Engagement Group was created in 2018 and has a draft Terms of Reference. However, it did not meet in 2018 – meetings will commence in 2019. The Colleague Engagement Group is due to be formed in 2019.

Of the various senior management groups on the bottom row of the chart, all except the Capital Management, PPUP, Investment Management and Risk Working Group have been added to our governance structure since last year's report.

3.1.1 The Board

The directors as at the date of signing this report are:

Peter Dodd	Chairperson
Jon Craven	Chief Executive Officer
John Nickson	Finance Director
Bob Abberley	Chair of Nominations and Remuneration Committee
Tim Holliday	Senior Independent Director
Lucia McKeever	
Eithne McManus	Chair of Audit Committee
Oliver Peterken	Chair of Risk Committee
Marion Saunders	
Tony Woodley	

The Board takes collective responsibility for setting strategy and delivering against the Society's corporate objectives to ensure long-term success in a manner that upholds the vision of the organisation. This is in addition to delivering the maximum value to the Society for the benefit of its members, whilst complying with the relevant regulatory requirements, the rules of the organisation and Society Charter. The Board operates via the Rules of the Society and has a working "Charter" that defines how it is comprised and the key roles and responsibilities of the CEO, other Executive Directors, the Chairperson, the Senior Independent Director and other non-Executive Directors. It also includes the roles of the Board Committees.

The Board met eight times in 2018; all meetings were minuted and deemed to be quorate. The role of the Board is to:

- Ensure the necessary financial, operational and human resources are in place to achieve the Society's objectives;
- Provide direction and oversight to the Society's compliance with its regulatory and legal obligations;
- Provide the necessary corporate and management resources;
- Determine the policies applicable to the Society as set out in the Matters Reserved for the Board;
- Determine the nature and extent of the significant risks it is willing to take in achieving the Society's strategic objectives;
- Establish and maintain a framework of risk management and internal controls that enables the strategic financial and operational risks of the Society to be assessed and managed;
- Monitor progress by the Society towards the achievement of its objectives and compliance by the Society with approved plans and agreed policies;
- Report to the Members and relevant stakeholders on the Society's activities, presenting a clear assessment of the Society's position and prospects;
- Approve the appointment of Board Committees with the appropriate balance of skills, independence and knowledge to meet the Society's requirements and relevant corporate governance standards;
- Delegate clearly defined responsibilities to the Chair, the Senior Independent Director, the CEO, Board Committees and otherwise as the Board may determine from time to time;
- Ensure effectiveness against collective performance measures, following an annual appraisal of Board performance; and
- To fulfil the specific responsibilities of the Board as set out in the Statement of Board Reserved Powers.

The Society has an Audit Committee, a Risk Committee, a Nominations and Remuneration Committee and a variety of Executive management groups, as detailed below:

3.1.2 Audit Committee

It is the Board's responsibility to develop and maintain appropriate systems of internal control.

The Board has delegated authority to the Audit Committee to establish and oversee the systems of internal control and how this is applied in order to generate the Society's financial accounts on an annual basis. The Audit Committee met five times in 2018.

The Audit Committee is formed of independent non-Executive Directors, at least one of whom has recent and relevant financial experience. The Board carries out an annual review of the systems of internal control and the work of the Audit Committee, and reports the results to members of the Society within the financial statements. The Terms of Reference for the Committee is reviewed on an annual basis.

3.1.3 Risk Committee

It is the Board's responsibility to develop and maintain appropriate risk management systems.

The Board has delegated authority to the Risk Committee to establish, monitor and assess the effectiveness and proportionality of the Society's risk management strategy. The Risk Committee met five times in 2018.

Through the Risk Committee, the Board is responsible for determining its Risk Appetite and assessing the risks the Board should take in order to achieve strategic objectives.

The Board carries out an annual review of the Society's risk management systems, assessing the effectiveness of the work of the Risk Committee and reports the results of the review to members within the financial statements. The Terms of Reference for the Committee is reviewed on an annual basis.

3.1.4 Nominations and Remuneration Committee

It is the Board's responsibility to ensure that Executive Directors are appropriately qualified and suitably rewarded for running the Society's operations.

The Nominations and Remuneration Committee recommend appointments to the Board, and it is the Committee's responsibility to identify Directors who will promote the long term success of the Society. The Nominations and Remuneration Committee met three times in 2018.

The Nominations and Remuneration Committee has devolved responsibility for setting the remuneration for all Executive Directors, the Chairperson and other members of the Board, in accordance with the Annotated Code of Corporate Governance. The Committee is responsible for setting a formal and transparent policy on executive remuneration, judging the compensation package relative to other Societies while being sensitive to pay and conditions for other staff within the Society. The Committee ensures that a significant proportion of remuneration is structured to link rewards to corporate and individual performance.

The Board will ensure the Nominations and Remuneration Committee is formed of at least two independent non-Executive Directors. The independent Chair of the Board will be a member of the Committee.

The policy is that the remuneration for Executive Directors should reflect performance and enable the Society to attract, motivate, and retain suitably qualified individuals.

There is a Remuneration Policy in place that covers this and is reviewed by the Nominations and Remuneration Committee on an annual basis.

In 2018 we used Keystone to consider the levels of remuneration for non-Executive directors. This company has no connection to the Society other than providing these services.

Further details on remuneration can be found in the report and accounts in the Directors' remuneration report on pages 21 to 22.

3.1.5 Executive management groups

The day-to-day operations of the Society are managed by the Chief Executive Officer (CEO) under delegated authority from the Board. The CEO is assisted in fulfilling this responsibility by the following senior management groups

- Executive Group
- Pricing, Product, Underwriting and Partnerships Group;
- Capital Management Group
- Risk Working Group
- Investment Management;
- Pension Working Group; and
- Recruitment and Remuneration Group

Each group is comprised of at least one Executive Director and other senior managers of the Society. These groups have defined terms of reference and reporting lines, meet regularly and have recorded minutes. Additional Groups to advise on membership and colleague matters are in the process of being formed for 2019.

3.2 Fitness and Propriety

We are committed to ensuring all members of our Board, and other senior individuals within our Society, behave with integrity, honesty and skill, and this commitment is documented in the Fitness and Propriety Policy.

We have processes in place to ensure appropriate standards of fitness and propriety are met and maintained, both prior to appointment and on an ongoing basis thereafter.

The key elements within the fitness and propriety framework which apply to each individual are:

- A pre-appointment assessment, including assessment of the individual's knowledge, technical capability, professional experience and qualifications, and receipt of satisfactory employment and regulatory references, conducting DBS and credit checks;
- An appropriate induction programme;
- A job description, setting out the significant requirements of their role. Where the individual concerned holds a Senior Manager function role as defined by PRA , there is a scope of responsibilities (SOR) document detailing the regulatory requirements for that regulated role;
- If the role is a prescribed function as laid down by the PRA Senior Managers Function regime, then that role and the individual will be noted as holding a prescribed function;
- An annual assessment of the fitness and propriety of all Senior Manager function role holders will be undertaken, with confirmation requested by signature confirming the individual's understanding of their core governance responsibilities, their fitness and propriety requirements, and an understanding of their ongoing compliance;
- An annual review of performance against objectives and assessment of behaviour against regulatory conduct standards; and
- A review of their fitness and propriety, whenever they are impacted by a significant business change or there is a significant change in their responsibilities.

In addition, the Board's Nomination and Remuneration Committee regularly reviews the structure, size and composition of the Board, including skills, knowledge and experience, and makes recommendations to the Board with regard to any changes. When a new appointment is required, the Nomination and Remuneration Committee evaluates the balance of knowledge, skills and experience of the Board members and uses this evaluation to inform the selection of a suitable candidate.

Records are maintained, and notifications made to the regulators when a new Senior Manager Function role is required, withdrawn, or a change to the structure required.

To consider the Board's effectiveness, an Internal Board Effectiveness review was conducted in June 2018, with an External Board Effectiveness review scheduled for 2020, in line with the agreed schedule.

Members of the Board have participated in in-house training activities. Topics covered in 2018 included GDPR and the new Claims System. Attendance at the training is noted.

3.3 Risk Management and Own Risk and Solvency Assessment (ORSA) Process

We are committed to the appropriate standards of risk management and internal control. As a non-complex category 5 firm, writing predominately fire and property damage insurance, the Board's approach to Risk Management is appropriate and proportionate to our size and complexity.

The Board through the Risk Committee is accountable to our members for ensuring an appropriate system of internal control is maintained, and for reviewing its effectiveness. Taking account of the limitations in any system of control, the system is designed to limit rather than eliminate the risk of failure and, as such, can only provide reasonable but not absolute assurance against material misstatement or loss.

The Committee assists the Board in establishing, monitoring and amending the effectiveness and appropriateness of the Group's risk management strategy and policies. It encourages a culture of risk awareness throughout the Society. It provides advice on aspects of risk on request from the Board. At least once a year the Committee reviews the Risk Appetite and reports to the Board any recommendations including assessing the appropriateness of the business plan in the context of the Risk Appetite. At each meeting it reviews the Risk Register to ensure all material risks are included and assessed in accordance with the Risk Appetite and to ensure that for each risk a set of risk management processes and measures are in place to adequately mitigate or reduce the impact of the risk identified. It reports to the Board any actions arising from the review of the Risk Register to be incorporated in the financial and operational plans as appropriate.

As part of this process, we have an ORSA policy reviewed and approved at least annually by the Board. The ORSA process is run annually, but can be run more frequently if the Risk Committee, with devolved responsibility from the Board, considers that our risk profile has materially changed since the last iteration.

The ORSA is an iterative process that combines a review of strategy, strategic direction, and the risks we face and the capital it needs to firstly meet the needs of existing policyholders but also to grow. It includes the results of stress and scenario testing based on a range of stresses and scenarios proposed by management and approved by the Risk Committee and Board (section 4.8).

The ORSA includes an assessment of the capital the Society is required to hold under regulatory requirements with the SCR and MCR (Minimum Capital Requirement) calculated using the standard formula prescribed by the regulator. It also includes an assessment and confirmation of the ongoing appropriateness of the Standard Formula for calculating our regulatory capital requirements.

The Board reviews and approves the final ORSA report.

The Risk Committee reports to the Board the outcome of each meeting and ensures that all members of the Board are fully aware of the output of the work of the Committee and the sensitivities or risks associated with the recommendations of the Committee.

The issues the Committee considered during the year under review included:

- The Society's Risk Appetite
- The Society's investment strategy;
- A review of the risk register;
- Operational risk event reporting and recording
- The ORSA report and the quarterly SCRs; and
- The appropriate reinsurance strategy

During 2018 we have operated a system of internal control that provides reasonable assurance of effective and efficient operations covering all controls including financial and operational controls, and compliance with laws and regulations.

Processes are in place for identifying, evaluating and managing on an ongoing basis, through the systems of risk management and internal controls, the risks facing us. These processes include:

- Board discussion and approval of the Society's strategic objectives and plans, and the risks to achieving them;
- Board review of performance and approval of budgets;
- Regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- Review by the Risk Committee of any incidents of fraud, suspected fraud, material error or misstatement, and the controls in place to protect the Society against these risks;
- Regular reviews by the Audit Committee of the scope and results of internal audit and compliance work, and of the implementation of recommendations;
- The Audit Committee reviews the scope of work undertaken by the external auditor and any significant issues arising from them;
- The Audit Committee reviews accounting policies and levels of delegated authorities; and
- The Board considers the key risks facing the Society, as documented in the risk register and of the effectiveness of the controls in place to mitigate their impacts.

The internal control system is monitored and supported by the Internal Audit function that reports to the Audit Committee on the Society's operations. During 2018, the information received and considered by the Audit Committee provided assurance that there were no material control failures and this is evidenced by the annual audit opinion as provided to us by our outsourced Internal Audit function, RSM.

We have put in place an organisational structure with formally defined roles and responsibilities. Operational responsibility rests with the CEO and devolves through the executive structure with clearly defined levels of authority. There are established procedures for planning, approval of capital expenditure, information and reporting systems, and for monitoring our business and performance. These include:

- A governance framework including terms of reference for the Board and its committees;
- A clear organisational structure;
- Documented apportionment of responsibilities across the Society;
- Processes for assessing the adequacy and effectiveness of internal controls and for ensuring that these remain appropriate to the scale and complexity of activities;
- A detailed financial controls framework to safeguard assets from inappropriate use or loss;
- Monthly monitoring of key performance indicators against plans for the year;
- A detailed framework of operating policies and procedures including risk management and control standards;
- Recruitment policies to select employees of the necessary calibre and experience to fulfil their responsibilities;
- Clear roles and accountabilities with regular performance reviews; and
- A whistle blowing procedure to enable staff to raise concerns in confidence, including the requirement for an independent whistleblowing champion. .

We actively encourage a culture of continuous improvement to ensure systems of control are maintained.

For the year under review, there has been in place an ongoing process for identifying, evaluating and managing the risks faced by us that are significant to the achievement of our business objectives. As part of this process, managers of the operational areas and of each major project are required to identify the risks, the probability of their occurrence, the impact if they occur and the actions being taken to manage these impacts to the desired level. Managers are required to monitor and report on the key risks in their areas, highlighting whether these are stable, increasing or decreasing, as well as maintaining a risk log providing details of significant incidents and loss events. A consolidated report is submitted to every meeting of the Risk Committee providing an analysis of risks reported in the period, together with all changes to the Society risk register.

The Board has made an assessment of the effectiveness of its system of governance, risk management and internal control and concluded that it is appropriate for its size and complexity and no significant weaknesses have been identified.

3.4 Risk function

The Risk function, headed by the Chief Risk Officer, is responsible for:

- Setting the overall risk management and strategic framework, and ensuing an effective risk-management system is in place, including strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report on a continuous basis the risks, at an individual and at an aggregated level, to which it is or could be exposed, and their interdependencies.
- Ensuring the company has in place processes which are proportionate to the nature, scale and complexity of the risks inherent in its business and which enable it to properly identify and assess the risks it faces in the short and long term and to which it is, or could be, exposed; and to demonstrate the methods used in that assessment.
- Monitoring and assisting in the effective operation of the Society's risk management framework and maintaining an accurate view of the Society's risk profile.
- Assessing the sensitivity of the technical provisions and eligible own funds in line with the actuarial function.
- Oversight and approval of all regulatory submissions for Solvency 2
- Coordination of the production and review of the ORSA as part of its risk management system

3.5 Compliance function

The Compliance function is responsible for:

- Identifying, assessing, monitoring and reporting our compliance and conduct risk exposure;
- Assessing possible impact of regulatory change from both the Society's regulators, and reviewing and identifying the emerging regulatory risks,
- Monitoring the appropriateness of compliance procedures; and
- Assisting, supporting and advising us in fulfilling its responsibilities to manage compliance and conduct risk.

Compliance oversight is the responsibility of the CEO who holds the regulatory CF10 approval to undertake the compliance reporting to the governing body. There is an in-house compliance team that conducts the required compliance monitoring and gives the business compliance assurance and guidance on the regulatory requirements to be in place to undertake the business that the Society underwrites.

The compliance MI and output from any monitoring activity is reported to the Audit committee and Board on a regular basis. Compliance MI also details the regulatory issues that have occurred during the previous quarter and is submitted to the Audit Committee and Board.

3.6 Internal audit function

During the year under review, our internal audit function was outsourced to RSM.

Internal audit reviews are scheduled using a risk-based approach, in accordance with a three-year audit cycle. The risk based approach concentrates on those areas that are considered higher risk, derived from the Society's risk register, through discussions with senior management and the Chair of Audit, and through the Internal Auditor's own independent assessment. The Internal Audit function reports directly to the Chair of the Audit Committee, although day-to-day contact is maintained and coordinated through the Compliance team.

3.7 Outsourcing

The Society has formally documented its outsourcing policy, procedure and framework, as well as a due diligence and risk assessment process prior to any final decision being made as to whether to outsource a material or critical/important regulatory business activity.

The Society has material outsourcing arrangements in place covering internal audit, claims handling, fund management, loss adjustment and out-of-hours/claims surge provision. All providers of these material outsourcing arrangements are based in the UK. However, three of the material outsource contracts (all relating to claims handling) are with legal entity parent companies outside the UK – two in the US and one in Germany.

Each material outsourced arrangement detailed above is subject to ongoing monitoring and review. Both the outsourced books of business (HE and BTE legal expenses) report back qualitative and quantitative management information to the Society on a regular basis to allow the Society to continue to provide oversight of the business effectively.

3.8 Actuarial function

The Society has an in-house actuarial team that carries out the day-to-day actuarial role, including pricing, claims reserving, reinsurance, capital management and maintenance of the Society's standard formula model.

The Society's Head of Actuarial and Underwriting acts as Actuarial Function Holder and submits an annual report to the Board on the operation of the function, the Solvency II technical provisions and standard formula SCR, providing feedback on the risk management systems, and opinions on the underwriting policy and reinsurance arrangements.

The actuarial function deals with uncertainty and risk. It has a key role in identifying, analysing and quantifying levels of uncertainty and in assessing Society strategies for managing and mitigating risk. It is recognised that the wide use of judgement and estimation in quantifying uncertain insurance liabilities introduces the potential for bias.

As a vital control function, the key requirement is that the function is effective in delivering robust application of appropriate techniques within the control areas, minimising bias and is conscious of limitations and sensitive to the assumptions it uses.

4. Risk Profile

4.1 Underwriting Risk

Underwriting Risk is the risk arising from uncertainty in the results relating to existing obligations as well as new business expected to be written. This includes the risk of loss, or of adverse change in the value of insurance liabilities resulting from:

a) fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements (non-life premium and reserve risk); and

b) significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events (non-life catastrophe risk).

We accept fire and property damage risks in the UK from household insurance policies. We operate under two distinct brands; a trade union and affinity brand “UIA Mutual” and a brand aimed at the general public, “Together Mutual Insurance”. The Society also underwrites Home Emergency (HE), Before The Event (BTE) and After The Event (ATE) legal expenses cover.

The principal risk faced by the Society is that the actual claims and benefit payments exceed the carrying amount of the risk premium. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary year to year from the level we establish using generally accepted estimation techniques.

Household Underwriting Risk is derived from two sources:

- Reserving Risk – which is a failure to adequately capture reserves leading to adverse development patterns; and
- Premium Risk – which is a failure to capture an adequate premium for the risks underwritten.

To manage the Reserving Risk, our actuarial team uses a range of recognised actuarial techniques to monitor claims development patterns across various loss types, and determine claims provisions.

To address Premium Risk we continue to evolve our new premium rating engine for our Tiered product, which better assesses the risks by peril (e.g. flood, fire, storm etc.). A number of measures are in place to ensure this risk is managed prudently and conservatively; these include monthly monitoring performance statistics including loss ratios by product and channel.

We are exposed to concentration risk geographically, through exposure to a single weather event or a possible man-made event (e.g. spread of fire from one property to another or an explosion). The Society reviews the highest concentration risks by total sum insured within a 200 metre radius. The postcode is used as a proxy for this.

Our exposure under the public brand (Together) has expanded significantly in the past two years. However, due to poor underwriting performance on the aggregators, we have begun a process of reducing our exposure to this market segment. We are renewing focus on our union partnerships.

Our Product, Pricing, Underwriting and Partnerships Group reviews and approves pricing recommendations and reviews any new opportunities. We maintain Underwriting and Pricing Policy documents that also explain our philosophy and principles. An Underwriting Manual is separately maintained and updated.

To further mitigate our Underwriting Risk, we purchase a number of reinsurance policies. For our household book we purchase on an excess of loss basis, Catastrophe, Liability and per Risk reinsurance. For our HE, BTE Legal and ATE Legal we have 100% Quota share arrangements with specialist reinsurance companies.

For 2019, our catastrophe reinsurance programme has been slightly modified to include a higher reinsurance upper limit of £40m (2018: £35m), targeting a return period in excess of the 1 in 250 year level, and a lower deductible of £1.5m (2018: £2m, albeit a further £1m excess of £1m layer was purchased during October 2018 covering the remainder of that year). Our risk excess of loss cover upper limit remains at £1m, but has a slightly higher deductible of £250k (2018: £200k).

4.2 Market Risk

Market Risk is the risk arising from the level or volatility in the value of assets and liabilities. It also reflects any duration mismatch between assets and liabilities. It includes the impact of potential changes in:

a) interest rates (Interest Rate Risk);
b) the market prices of equities and property (Equity and Property Risk);
c) credit spreads over the risk-free interest rate term structure (Spread Risk);
d) currency exchange rates (Currency Risk);

and risks stemming either from lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities (Market Risk concentrations).

We seek to limit exposure to Market Risk from investment activities in line with our Board approved Risk Appetite. To achieve this we have established guidelines, procedures and monitoring to help manage our exposure to Market Risk. Market Risk relating to the Society's defined benefit pension scheme investments remains largely outside our control.

Market Risk is regularly considered and monitored via the Capital Management Group and the Investment Management Group.

The Investment Management Group, Risk Committee and Board regularly review the Society's asset allocation and investment performance. The portfolio is re-balanced from time to time as needed to help manage the Society's exposure to Market Risk as set out in our Risk Appetite.

4.3 Credit (Counterparty) Risk

Credit Risk is the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and debtors.

Our exposure to Credit Risk arises from our direct insurance trading activities, the exposure to the reinsurance we purchase and our investment activities.

We seek to limit exposure to Credit Risk from investment and reinsurance activities in line with our Board approved Risk Appetite. To achieve this we have established guidelines, procedures and monitoring to help manage our exposure. This includes monitoring external credit ratings for the investment and reinsurance assets held.

Reinsurance assets are reinsurers' share of outstanding claims, including allowance for incurred but not reported (IBNR) elements and reinsurance receivables. All reinsurers on the household programme are required to have a credit rating of A- or better.

The carrying amount of financial and reinsurance assets represents the Society's maximum exposure to credit risk. There are no loans and receivables or insurance debtors due past 90 days and therefore none are considered impaired. No collateral is held in respect of any financial assets or liabilities.

A summary of the Credit Risk applying to financial and reinsurance assets is contained on pages 51 and 52 of the Society's Annual Report and Accounts.

4.4 Liquidity Risk

Liquidity Risk is the risk that sufficient financial resources are not available to enable the Society to meet obligations as they fall due. Our approach is to maintain sufficient liquidity to be highly confident of meeting our short term operational expenses including claims, commission and overhead expenses.

We limit our exposure to Liquidity Risk through the use of cash held at our bank (Unity Trust Bank plc) and readily realisable investments with our investment managers (Royal London Asset Managers Limited). This helps ensure all reasonably foreseeable cash flows can be met out of readily available sources of funding.

The table below shows a breakdown of all assets held by UIA (Insurance) Ltd (not UIA Group), excluding underlying pension assets:

Asset type	Amount (£'000's)
Cash	10,304
Collateralised securities	6,437
Corporate bonds	38,088
Equity holdings in subsidiaries	264
Forward contracts	-5
Government bonds	131
Investment funds	0
Total	**55,218**

The majority of the Society's investments are either corporate bonds or cash, which can be easily liquidated to meet cash flow needs.

4.5 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and IT systems. It also covers external events such as material outsourcing, catastrophes, legislation, or external fraud.

The Society maintains a detailed Risk Register that is updated by the business units who own the understanding, identification, management and mitigation of the risks detailed on the register. The Risk Register is updated quarterly, and coordinated by the Compliance team, to ensure all Risks have been considered by the business.

The Society also maintains a schedule summarising the most significant risks to the Society, which is reviewed and updated quarterly by the RWG, and submitted to the Risk Committee for their consideration.

There is a process in place to consider the emerging risks that may need to be considered by the Society.

There is also an Operational Risk event notification process to ensure all such events are notified to the Compliance team who manage the breach with the business unit to ensure appropriate mitigation is then in place going forward. There is a process in place to capture any events that may be notifiable to either of the Society's regulators. This is coordinated by the Compliance team.

Risk event reporting is made to the Risk Committee in the Compliance MI on a quarterly basis.

4.6 Pension Risk

The Society is a sponsoring employer and part of a multi-employer defined benefit pension scheme. The pension scheme is currently in deficit.

Our share of the deficit is included in the Annual Report and Financial Statements as a liability of £8.5m (2017: £10.3m). The Society's share of the net liability is circa 5%; the scheme has a last man standing clause in place, which adds to the Society's risks. A strategic review of the pension provision across Unison is currently underway; the Society is represented in this strategic review.

4.7 Potential Brexit Impact

The Board has approved this report on 9 April 2019, three days before UK formally has to leave the European Union without any withdrawal agreement or have negotiated a further extension to the withdrawal date with the agreement of the other 27 members of the Union. For the reasons explained below, the Board is satisfied that it is able perform its obligations in respect of, and to approve these Reports and Accounts, despite the obvious uncertainties that currently exist.

We are not expecting to have to alter our business model due to matters arising from any direct or indirect impact of the UK leaving the European Union in either a deal or no-deal exit. We underwrite entirely within the UK. We will, however, face the indirect consequences of such a move, such as a possible increase in general inflation and further uncertainty within investment markets.

It is possible that claims cost inflation may increase under some Brexit scenarios due to skills and materials challenges. However, it is not practical at this stage to ascertain what the impact of such shortages will be. Such an impact will affect the overall insurance market which may respond with generally increased premiums for home insurance

Some of our reinsurers are non-UK based within the European Union. We have investigated post-Brexit arrangements and are satisfied that such arrangements will continue to be in place.

£5m of financial and reinsurance assets held on our balance sheet as at 31 December 2018 are issued or owed by financial institutions based in Europe. We consider these to be stated at fair market value as at the year end. The political situation at the date of approving these Reports and Accounts remains uncertain and this continues to affect investment and insurance markets.

A severe reduction in values of financial markets was included in our Own Risk and Solvency Assessment (Scenario 2) and the Society continued to meet the required statutory solvency and capital requirements over the business planning horizon. The Board and senior management continue to review the situation and will take whatever action is necessary to protect the interests of the members of the Society.

4.8 Stress Tests, Scenarios and Reverse Stress Tests

Stress tests measure the shock of certain individual events such as a stock market correction of 10% or a series of smaller “catastrophe” events. Scenarios measure a combination of stresses that are not necessarily linked. Reverse stress tests involve identifying scenarios that could potentially lead the business to not being viable from a commercial and regulatory point of view.

As part of the ORSA process we test our capital requirement under a range of plausible scenarios, including testing the business to events where it is no longer solvent. These help us understand the robustness of the Society’s capital position over the business planning horizon

Below are the stress and scenario tests modelled in our 2018 ORSA. Looking at the nature and type of event that might result in the Society’s failure over the coming year, given our strong solvency position and reinsurance purchasing, such an event or combination thereof would need to be extreme.

ORSA Stress and Scenario Tests (including Reverse Stress Tests)		
Scenario #	**As at date**	**Description**
1	2018-2023	Equities drop by 30% combined with pension liability shock of £5m
2	2018-2023	Economic shock (Brexit no-deal worst case plus defaults): All credit ratings drop one EIOPA quality step (equivalent to 3 rating notches) whilst corporate bonds below BBB+ default and Equities fall 30%
3	2018-2023	ARAG default
4	2018-2023	Loss of Britannia + sharp decline in retention rates on GH/BH from approximately 90% to 50%
4a	2018-2023	Loss of Unite
5	2018-2023	Sustained COR at 120%, due to a combination of small events and poor underwriting
6	2018-2023	Renewal book purchase providing an additional 10k policies on a basis similar to our existing affinities, with on-boarding costs of £0.5m
7	2018-2023	Operational Risk Scenario: Assume office fire and need to implement disaster recovery + high claim levels
8	2018Q4	Reverse Stress Tests 1: £15m windstorm + £5m flood + £1m attritional claims shock
		+ largest reinsurer defaults
9	2018Q4	Reverse Stress Test 2: Combination of scenarios 1, 2 and 8 above at appropriate severities to result in failure
10	2018Q4	Reverse Stress Test 3: £50m Cat Event

5. Valuations for Solvency Purposes

5.1 Assets

We set out below the basis for our Solvency II asset valuation for each main class of asset compared with the GAAP valuation as at 31 December 2018. The GAAP valuation is based on the UK GAAP accounting policies, as described in the Society's Annual Report and Accounts on pages 42 to 48 (£'000s):

	UK GAAP valuation 2018	Note	Adjustment 2018	Solvency II valuation 2018
Assets				
Intangible assets	2,450	1	(2,450)	0
Investments	51,197	2	(215)	50,982
Reinsurance recoverable from: non-life excluding health	1,698	3	(275)	1,423
Unearned premiums	731	4	(731)	0
Insurance and intermediaries receivable	10,650	5	(10,650)	0
Receivables trade, not insurance	910	6	0	910
Property, plant & equipment held for own use	83	7	(0)	83
Cash and cash equivalents	3,979	8	257	4,236
Any other assets not elsewhere shown	1,345	9	(1,345)	0
Total assets	**73,043**		**(15,410)**	**57,633**

Note 1 Intangible assets
Intangible assets (other than purchased goodwill) are not recognized in the Solvency II balance sheet because they relate to software development which does not have a readily ascertainable market value and they cannot be sold.

Note 2 Investments
The valuation for Solvency II investment assets follows that of the valuation for UK GAAP, which for investments is at fair value. Further details can be found in the Society's Annual Report and Accounts on pages 45 to 47. The adjustment relates to cash holdings in the underlying investment portfolios, which is used for the Solvency II balance sheet calculations, and the separate reporting of positive (£230k) and negative (£236k) derivative positions.

Note 3 Reinsurance recoverable from: Non–life excluding health
The value under GAAP represents amounts recoverable from reinsurers on: (1) outstanding claims, including associated IBNR and reinstatement premiums; (2) exposures in force and bound at the Valuation Date; and (3) Home Emergency and legal insurance which is 100% reinsured out. These are treated as technical provisions in the Solvency II balance sheet. The value in the Solvency II Balance Sheet represents the best estimate of reinsurance recoverable relating to both claims incurred and expected claims relating to unexpired risks at the Balance Sheet date. The valuation under Solvency II considers a probability weighted average of all possible outcomes.

Note 4 Unearned premiums
No unearned premiums are shown in the Solvency II balance sheet as these are captured as future premiums relating to unearned business which are captured within the premium provisions

Note 5 Insurance and intermediaries' receivable
No debtors arising out of direct insurance operations are shown in the Solvency II balance sheet as these are due from policies already sold and are accounted for separately as part of technical provisions (see Liabilities below).

Note 6 Receivables (trade, not insurance)
Receivables (trade, not insurance) are valued on the same basis between the Solvency II and the GAAP balance.

Note 7 Property, plant and equipment held for own use
These are valued on the same basis between the Solvency II and the GAAP balance sheet, which are stated at cost, net of depreciation and any provision for impairment. Given the principle of materiality, this is deemed to be a close approximation to the fair value. Further details can be found in the Society's Annual Report and Accounts on page 44.

Note 8 Cash and cash equivalents
These are valued on the same basis between the Solvency II and the GAAP balance sheet other than for cash balances held by the asset manager which are included in 'Cash and Cash Equivalents' in the Solvency II balance sheet and not in 'Investments' under UK GAAP, and the UK GAAP interpretation of cash and cash equivalents that recognises that some of our investments can be classified as cash equivalents whilst under Solvency II regulations, the underlying investments of such funds are classified as investments as shown in Appendix B.

Note 9 Any other assets not held elsewhere
Deferred acquisition costs and prepayments are not considered as an asset under Solvency II. Accrued interest and accrued income are held on the same basis between the Solvency II and the GAAP balance sheet.

5.2 Liabilities

We set out below the basis for our Solvency II liability valuation for each material class of liability compared to the GAAP valuation as at 31 December 2018 (£'000s):

	UK GAAP valuation		**Adjustment**	**Solvency II valuation**
	2018	Note	**2018**	**2018**
Members equity	30,340	1	3,046	33,386
Liabilities				
Technical provisions – non-life (excluding health)	27,104	2	(15,026)	12,079
Insurance & intermediaries payables	3,510	3	(3,510)	-
Reinsurance payables	1,492	3	80	1,572
Any other liabilities not elsewhere shown	2,053	4	(1)	2,052
Pension benefit obligations	8,544	5	-	8,544
Total equity and liabilities	**73,043**		**(15,410)**	**57,633**

Note 1 Members equity
This represents members' funds and is thus classified as Tier 1 capital. The adjustment represents differing recognition of assets and liabilities between UK GAAP and Solvency II valuations as detailed in these notes.

Note 2 Technical provisions – Non-life (excluding health)
See the table on page 20 for a detailed comparison.

Note 3 Insurance & Intermediaries payables and Reinsurance Payables
Insurance and intermediaries payables on the UK GAAP basis represent payments due to other parties. Under Solvency II, these are included within the technical provisions (see table in paragraph 5.2.1).

Reinsurance payables on the UK GAAP basis represent reinsurance premiums currently due to our reinsurers. On a Solvency II basis, these are considered within the premium provision component of our technical provisions, but are reported as a separate item on the balance sheet. The amount represents future reinsurance payments in respect of policies in force (including bound business), subject to our minimum and deposit premium requirements.

Note 4 Any other liabilities, not elsewhere shown
These are valued on the same basis for UK GAAP and Solvency II. However, the Solvency II balance sheet reports separately on the positive (£230k asset) and negative (£236k liability) derivative positions.

Note 5 Pension benefit obligations
The Society's pension risk is incorporated in the Standard Formula model by inclusion of pension assets, liabilities and cash flows.

The Society's share of the pension deficit has decreased to £8.5m at 31 December 2018, as benefits from a higher discount rate and reduced longevity assumptions more than offset the reduction in asset values. Further details on the 2017 triennial valuation can be found in the Society's Annual Report and Accounts on pages 70 to 73.

The balance sheet position of our share of the scheme as at 31 December 2018 is as follows (£'000's):

	2018	**2017**
Present value of Scheme liabilities	**(37,073)**	(40,946)
Fair value of Scheme assets	**28,529**	30,651
Surplus / (deficit)	**(8,544)**	(10,295)

The following table reports the percentage by asset class for the defined benefit pension scheme assets:

	2018	**2017**
Equity instruments	**39**	45
Debt instruments	**30**	30
Property	**4**	8
Multi-asset funds	**21**	17
Cash	**6**	-
	100%	100%

5.2.1 Technical provisions

Technical provisions represent the expected cost of insurance liabilities at the balance sheet date. Solvency II requires undertakings to set up technical provisions in relation to their insurance liabilities equal to the amount they would have to pay if they were transfer their insurance obligations immediately to another undertaking.

Technical provisions for Solvency II therefore consist of a discounted best estimate of our insurance liabilities plus a prescribed Risk Margin. These amounts are calculated separately, in line with the Solvency II regulations and guidance. The best estimate is a combination of a premium provision and a claims provision.

- The claims provision relates to claims incurred at the balance sheet date
- The premium provision relates to all future cash flows (claims payments, expenses and future premiums), in respect of future exposure on contracts bound or incepted prior to the balance sheet date.

The Risk Margin is calculated using a standard proportional approximation set out in the Solvency II guidelines. Under this approach, a duration assumption is used to approximate the cost of capital of meeting future SCRs, based on the principle that future SCRs over the run off of the portfolio will be proportional to the starting SCR.

Technical provisions under UK GAAP are calculated on an undiscounted and 'prudent' basis.

We set out in the following table a summary of the Solvency II and GAAP valuations of technical provisions:

Provision		GAAP Item	GAAP Value	SII Item	SII Value	Difference	% Difference
GAAP: Household Claims Oustanding Provision SII: Household Claims Provision	Household	Claims Outstanding	7,212	Discounted Claims Outstanding	6,613	599	8%
	Household	IBNR including: - 10% CHE - 10% prudency loading	5,507	Discounted IBNR including: - 10% CHE	2,540	2,967	54%
	Household	**Total Household Claims Provision**	**12,719**	**Total Household Claims Provision**	**9,152**	**3,567**	**28%**
GAAP: Household Unearned Premium Provision; SII: Household Premium Provision	Household	Household Unearned Premium	11,773	-	0	11,773	
	Household	HE & Legal Unearned Premium	725	-	0	725	
	Household	-	0	Projected Future claims payable including: - 10% CHE	7,444	(7,444)	
	Household	-	0	Projected operating expenses	3,125	(3,125)	
	Household	-	0	Projected Premium Receivable (uncollected)	(8,848)	8,848	
	Household	**Total Household Premium Provision**	**12,498**	**Total Household Premium Provision**	**1,721**	**10,777**	**86%**
GAAP: Other Technical Provisions; SII: Premium Provision		**URR**	**745**			**745**	**100%**
ATE/BTE/HE Claims and Premium Provision	ATE/BTE/HE	**Reserves/Expected future payables**	**1,142**	**Reserves/Expected future payables**	**195**	**947**	**83%**
				Risk Margin	**1,010**	**(1,010)**	
Total Provision			**27,104**		**12,079**	**15,026**	**55%**

The link between our GAAP reserves and our Solvency II provisions is straightforward, well understood by those undertaking the work and enables reliance to be placed on underlying accounting controls as well as those specific to the technical provision exercise.

Below is a qualitative comparison table of the GAAP reserves vs Solvency II technical provisions:

Provision	Description – GAAP Basis	Description – Solvency II Basis
GAAP: Household Claims Outstanding Provision Solvency II: Household Claims Provision	This includes: • Outstanding household reserves (extracted from Management Information system), • IBNR (calculated by the actuarial department) including additional 10% claims handling expenses and additional prudency loading (90% confidence interval)	This includes: • Discounted outstanding reserves (extracted from Management Information system), • Discounted best estimate IBNR (calculated by the actuarial department) including additional10% claims handling expenses
GAAP: Household Provision for Unearned Premium Solvency II: Household Premium Provision (Note that these two measures cannot be compared easily, as they are made up of different items)	This includes: • Household unearned premium calculated using 1/24th earned pattern,	This includes: • Projected future claims payable (based on current policies, assume retention of 0%) including 10% claims handling expenses, • Projected future operating expenses and commission (based on core expenses required to process claims), • Expected future premium (based on premium still to be collected, not earned)
GAAP: Other technical provisions Unexpired Risk Provision (URP)	• Separate allowance for URP taken as the expected cost of future claims and expenses from unexpired risks less expected future premiums of unexpired risks.	• Included in premium provision calculation
ATE/BTE/HE Claims and Premium Provision	• Legal Expenses (ATE) reserves (calculated by finance department), • Home Emergency and Legal Expenses (Add-on products) unearned premium calculated using 1/24th earned pattern)	• Home Emergency and Legal Expenses reserves based on information supplied by Finance and calculated by Actuarial, • Home Emergency and Legal Expenses expected future receivables (as listed in the management accounts)

The actuarial and statistical methods used to calculate our technical provisions are proportionate to the nature, scale and complexity of the risks we underwrite. We separately consider our gross insurance liabilities and the effects of reinsurance on those liabilities. Our approach also includes the following:

- ***Interest rates*** – All interest rates used for discounting are taken from EIOPA's release of risk-free curves.

- ***Business expenses*** – Expense data has been taken from the most recent version of the Society's budget, as agreed and signed off by the Board. The budget includes the Society's most up to date projection of future business expectation, including future claims experience. This is then adjusted to put the business into a state of 'run-off' from the date of publication and any alterations are made to best reflect the costs the Society would incur based on the criteria set out in the Solvency II technical provisions for general insurer's guidance paper, published by the regulator. The budget is prepared by management and any assumptions are discussed and validated by the Board.

- ***Claims run-off*** – *T*o allocate our projected claims in run-off, we have created a model that uses the number of open claims as at the Valuation Date, with the claims provision claim run-off pattern and claim frequency, such that:
    - The projected run-off for the live book is projected using a retention rate of 0%. This equates to all live policies at the Valuation Date having lapsed after one year;
    - Future claims from the run-off of the live policies are then extrapolated using the current claims frequency. These are run-off using the claims provision claims run-off pattern; and
    - Claims handling expenses are assumed to be 10% of claims incurred in both the claim provision and premium provision.

- ***Claims provision*** - The claims provision is equivalent to the expected present value of all future claim payments (and claims administration expenses) arising from claim events that have occurred before or at the Valuation Date. This can be thought of as all reserved claims plus any IBNR and IBNER additional reserves, plus any expenses associated with the management of these claims as they run-off over time.

  The calculation of the claims provision is the same as our quarterly IBNR calculation. The only change applied is discounting using the EIOPA released risk free yield curves.

- ***Premium provision*** - The best estimate of premium provisions is the expected present value of the following cash in-flows and cash out-flows:
    - Cash flows from future premiums relating to any period of exposure, in-force or otherwise (including adjustment premiums from expired policies, cash flows due from premium debtors, reinstatement premiums or premiums expected from in-force policies);
    - Cash flows from future reinsurance premiums due (however these are not included in the above tables, but are instead reported in reinsurance payables as per note 3 on page 19);
    - Cash flows arising from future claims events;
    - Cash flows arising from allocated and unallocated claims administration expenses in respect of claims events occurring after the Valuation Date;
    - Cash flows arising from ongoing administration of in-force policies; and
    - Cash flows arising from subrogation and salvage.

Key areas of uncertainty include: a) claims development patterns relating to our aggregator business, which differ from our traditional channel, b) subsidence claims, where the full extent of damage and necessary repairs takes longer to establish, and varies significantly from claim to claim, c) projected future claims, in particular relating our to aggregator business for which we have more limited claims history on which to base our estimates, d) projected operating expenses, as the business has seen significant changes and investment over the past year it is more difficult to estimate the level of future expenses.

Control over our sources of data and the processing of that data are considered effective.

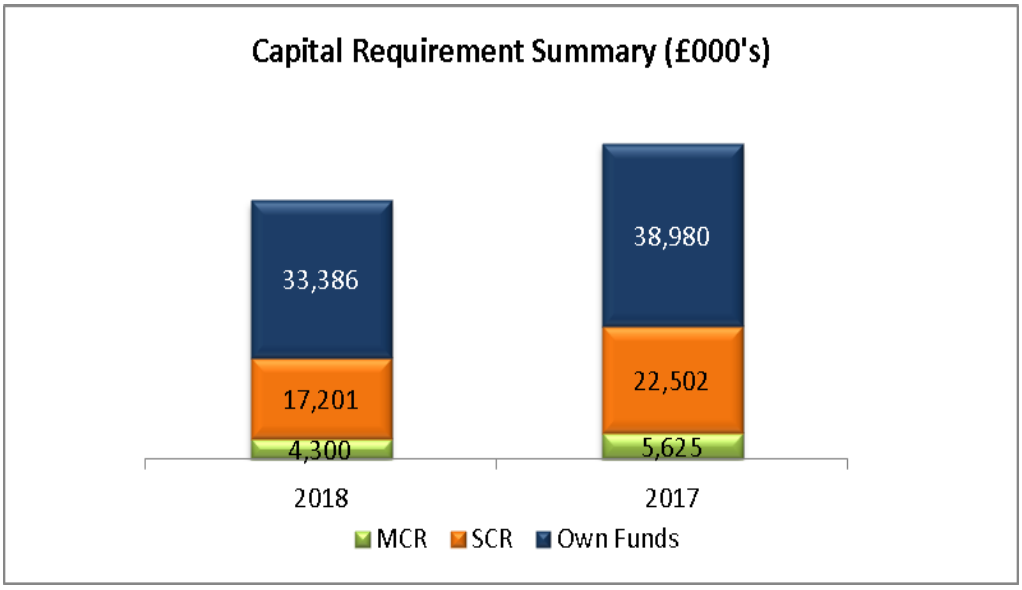
6. Capital Management

6.1 Own Funds at 31 December 2018

As a mutual entity, our own funds are made up 100% of members' funds arising from retained profits, which have arisen from past underwriting and investment surpluses. As such all capital is categorised as Tier 1 and there are no restrictions on the availability of our own funds to support the MCR or SCR.

Our business planning horizon is five years, so projections have been produced up to and including 2023. Our Risk Appetite is to operate in excess of 150% Solvency Ratio. This is monitored continuously and reported on at least a quarterly basis to both the Capital Management Group and the Risk Committee.

Own funds have fallen by approximately £6m since 2017. This is due to an increase in our technical provisions along with a reduction in our invested assets. The chart below shows our own funds in relation to the SCR and MCR:



Set out below is a summary of own funds, which also includes the appendix reference where a more detailed breakdown can be found.

	Own Funds		QRT
	Per Solvency II	Per GAAP	
Description	£000's	£000's	Reference
Own Funds	33,386		S23.01.b
Minimum Capital Requirement	4,300		S23.01.b
Solvency Capital Requirement	17,201		S23.01.b
Solvency Ratio	194%		

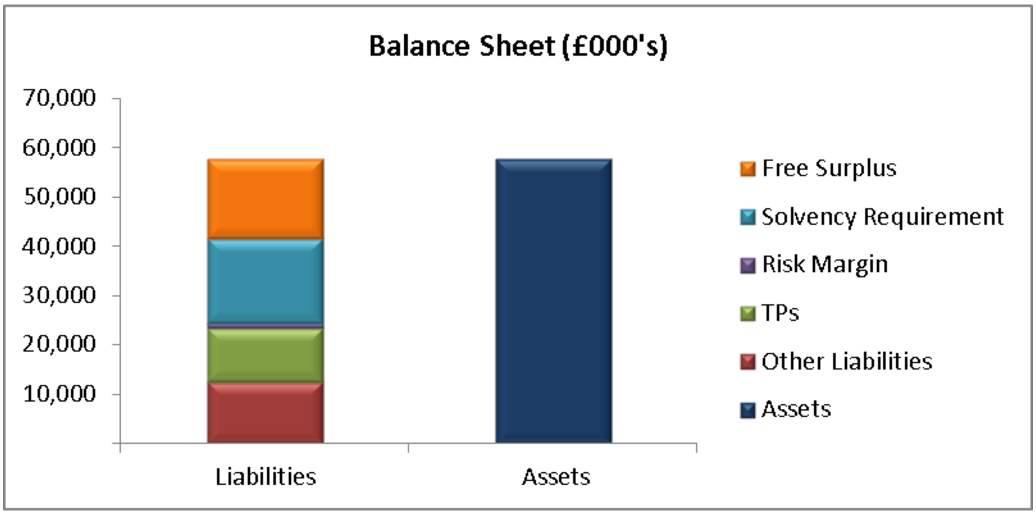
In late 2017, the Board took the prudent decision to de-risk the insurance investment portfolio, divesting of equities entirely and investing in a mix of bonds and cash. This has protected the Society from the significant stock market falls in the last quarter of 2018, but does mean that expected investment returns will be at a lower level than recent years. Our investment portfolio aim is to deliver consistent returns for our members in the expectation of ongoing political and economic uncertainty during our plan period.

This remains the right investment stance for us into 2019 and beyond as we invest over a medium-term time line. However, in doing so, we face losses arising from market interest rate changes. Over the medium term, interest rate rises are welcome as yields also rise. We seek to limit, as far as is practical, exposure to credit risk from its investment and reinsurance activities. To achieve this objective we have established guidelines, procedures and monitoring requirements to manage credit risk.

The following table sets out reconciliation between the GAAP and Solvency II own funds as at 31 December 2018 (£'000s):

Description		
UK GAAP Members' equity		**30,340**
Reallocation of insurance debtors to technical provisions	(10,650)	
Reallocation of reinsurance recoverable under solvency II basis	(276)	
Valuation of intangible assets under solvency II basis	(2,450)	
Change in valuation basis for other assets	(2,034)	
Total reduction to assets		**(15,410)**
Reallocation of insurance payables to technical provisions	3,510	
Reallocation of reinsurance payables to technical provisions	(79)	
Recalculation of best estimate under solvency II	14,015	
Risk Margin	1,010	
Total increase in technical provisions		**18,456**
Solvency II own funds		**33,386**

The following chart shows our assets and liabilities in relation to the SCR:



There are no plans for us to repay any own-fund item, and as we are a mutual, there are no plans to raise additional own funds.

6.2 Solvency Capital Requirement (SCR) at 31 December 2018

Our SCR is calculated on the standard formula basis, having reviewed the assumptions underlying the formula and assessed them as appropriate for us. We have no simplifications applied to the standard formula, and we do not use any undertaking specific parameters.

The table below compares our Solvency position at 31 December 2018 with that at 2017 (£'000s):

Solvency category	**2018**	**2017**	**Change**
Market risk	9,941	15,749	(5,807)
Counterparty risk	2,144	1,323	821
Non-life underwriting risk	9,783	10,746	(964)
Diversification credit	(5,153)	(6,035)	882
Basic SCR	16,715	21,783	(5,068)
Operational risk	755	718	36
LACDT	(269)	-	(269)
SCR	**17,201**	**22,502**	**(5,301)**
Own funds	33,386	38,980	(5,594)
Surplus	16,186	16,478	
Solvency ratio	**194%**	**173%**	**21%**

The SCR Ratio has risen since last year, with the SCR itself decreasing by £5.3m over the period along with a reduction in available own funds of £5.6m.

Market Risk has decreased due to rebalancing the investment portfolio towards a better matched, lower risk bond portfolio. Bond type investment instruments typically attract lower capital charges than equities. Correspondingly, the rebalanced portfolio has resulted in a small increase in Counterparty risk over the period.

Non-Life Underwriting Risk has also fallen over the period reflecting a reduction in Lapse Risk.

6.3 Minimum Capital Requirement (MCR)

The MCR is set at 25% of the SCR with no management adjustment considered necessary. The MCR has decreased to £4.3m (2017: £5.6m).

6.4 Non Compliance with SCR and MCR

We have met our MCR and SCR throughout the year.

Appendix A: Statement of Directors' Responsibilities

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulatory Authority (PRA) rules and Solvency II Regulations.

The PRA Rulebook for Solvency II firms in Rule 6.1(2) and Rule 6.2(1) of the reporting part requires that the Society must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that the Society must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the report & accounts, confirm that, to the best of their knowledge:

- Throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable; and

- It is reasonable to believe that, at the date of the publication of the SFCR, the Society continues to comply, and will continue to comply in future.

By Order of the Board

Jon Craven
Chief Executive Officer
9 April 2019

Appendix B: Annual Quantitative Reporting Templates as at 31 Dec 2018

S.01.02.01 Basic Information – General

Undertaking name	**R0010**	UIA (Insurance) Ltd
Undertaking identification code	**R0020**	2138004QDHX7Q2X1GO36
Type of code of undertaking	**R0030**	LEI
Type of undertaking	**R0040**	3 - Non-Life undertakings
Country of authorisation	**R0050**	GB
Language of reporting	**R0070**	English
Reporting submission date	**R0080**	
Financial year end	**R0081**	2018-12-31
Reporting reference date	**R0090**	2018-12-31
Regular/Ad-hoc submission	**R0100**	1 - Regular reporting
Currency used for reporting	**R0110**	GBP
Accounting standards	**R0120**	2
Method of Calculation of the SCR	**R0130**	1 - Standard formula
Use of undertaking specific parameters	**R0140**	2 - Don't use undertaking specific parameters
Ring-fenced funds	**R0150**	2 - Not reporting activity by RFF
Matching adjustment	**R0170**	2 - No use of matching adjustment
Volatility adjustment	**R0180**	2 - No use of volatility adjustment
Transitional measure on the risk-free interest rate	**R0190**	2 - No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	**R0200**	2 - No use of transitional measure on technical provisions
Initial submission or re-submission	**R0210**	1 - Initial submission
Exemption of reporting ECAI information	**R0250**	0 - Not exempted

S.02.01.02 Balance Sheet

£'000's

		Solvency II value
Assets		**C0010**
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	83
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	51,217
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	264
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	44,655
Government Bonds	**R0140**	131
Corporate Bonds	**R0150**	38,088
Structured notes	**R0160**	
Collateralised securities	**R0170**	6,437
Collective Investments Undertakings	**R0180**	
Derivatives	**R0190**	230
Deposits other than cash equivalents	**R0200**	6,068
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	1,423
Non-life and health similar to non-life	**R0280**	1,423
Non-life excluding health	**R0290**	1,423
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	910
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	4,236
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	57,869

S.02.01.02 Balance Sheet (continued)

£'000's

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	12,079
Technical provisions – non-life (excluding health)	**R0520**	12,079
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	11,068
Risk margin	**R0550**	1,010
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	**R0570**	
Best Estimate	**R0580**	
Risk margin	**R0590**	
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	**R0660**	
Best Estimate	**R0670**	
Risk margin	**R0680**	
Technical provisions – index-linked and unit-linked	**R0690**	
TP calculated as a whole	**R0700**	
Best Estimate	**R0710**	
Risk margin	**R0720**	
Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	
Pension benefit obligations	**R0760**	8,544
Deposits from reinsurers	**R0770**	
Deferred tax liabilities	**R0780**	
Derivatives	**R0790**	236
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	
Reinsurance payables	**R0830**	1,572
Payables (trade, not insurance)	**R0840**	
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	2,052
Total liabilities	**R0900**	24,482
Excess of assets over liabilities	**R1000**	33,386

S.05.01.02 Premiums, claims and expenses by line of business

£'000's

		Line of Business for: **non-life**		
		Fire and other damage to property insurance	Legal expenses insurance	Total
		C0070	**C0100**	**C0200**
Premiums written				
Gross - Direct Business	**R0110**	23,478	1,071	24,549
Gross - Proportional reinsurance accepted	**R0120**			
Gross - Non-proportional reinsurance accepted	**R0130**			
Reinsurers' share	**R0140**	2,495	1,079	3,575
Net	**R0200**	20,983	-8	20,974
Premiums earned				
Gross - Direct Business	**R0210**	24,077	1,080	25,157
Gross - Proportional reinsurance accepted	**R0220**			
Gross - Non-proportional reinsurance accepted	**R0230**			
Reinsurers' share	**R0240**	2,495	1,079	3,575
Net	**R0300**	21,582	0	21,582
Claims incurred				
Gross - Direct Business	**R0310**	16,953	1,024	17,977
Gross - Proportional reinsurance accepted	**R0320**			
Gross - Non-proportional reinsurance accepted	**R0330**			
Reinsurers' share	**R0340**	543	1,024	1,567
Net	**R0400**	16,411		16,411
Changes in other technical provisions				
Gross - Direct Business	**R0410**	-230		-230
Gross - Proportional reinsurance accepted	**R0420**			
Gross - Non- proportional reinsurance accepted	**R0430**			
Reinsurers'share	**R0440**			
Net	**R0500**	-230		-230
Expenses incurred	**R0550**	13,959		13,959
Other expenses	**R1200**			
Total expenses	**R1300**			13,959

S.17.01.02 Non-Life Technical Provisions

£'000's

		Direct business and accepted proportional reinsurance		Total Non-Life obligation
		Fire and other damage to property insurance	Legal expenses insurance	
		C0080	**C0110**	**C0180**
Technical provisions calculated as a whole	**R0010**			
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**			
Technical provisions calculated as a sum of BE and RM				
Best estimate				
Premium provisions				
Gross	**R0060**	1,736	10	1,746
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	936	39	975
Net Best Estimate of Premium Provisions	**R0150**	799	-29	771
Claims provisions				
Gross	**R0160**	9,187	135	9,323
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	312	135	447
Net Best Estimate of Claims Provisions	**R0250**	8,875		8,875
Total Best estimate - gross	**R0260**	10,923	146	11,068
Total Best estimate - net	**R0270**	9,675	-29	9,646
Risk margin	**R0280**	1,010		1,010
Amount of the transitional on Technical Provisions				
Technical Provisions calculated as a whole	**R0290**			
Best estimate	**R0300**			
Risk margin	**R0310**			
Technical provisions - total				
Technical provisions - total	**R0320**	11,933	146	12,079
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	1,248	174	1,423
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	10,685	-29	10,656

S.19.01.21 Non-Life Insurance Claims

£'000's

Accident year / Underwriting year	Z0020	Accident year [AY]

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

	Year	Development year												In Current year	Sum of years (cumulative)
			1	2	3	4	5	6	7	8	9	10 & +			
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											144	R0100	144	144
2009	R0160	6,098	2,673	908	957	878	620	205	16	32	1		R0160	1	12,390
2010	R0170	5,626	5,137	1,253	1,045	626	428	14	126	154			R0170	154	14,408
2011	R0180	5,571	3,313	903	540	406	70	434	438				R0180	438	11,674
2012	R0190	6,560	3,571	481	159	66	460	421					R0190	421	11,718
2013	R0200	4,771	3,096	579	109	326	359						R0200	359	9,240
2014	R0210	4,912	2,354	842	239	9							R0210	9	8,355
2015	R0220	4,623	3,751	547	82								R0220	82	9,004
2016	R0230	5,431	3,440	335									R0230	335	9,206
2017	R0240	6,948	5,150										R0240	5,150	12,099
2018	R0250	8,893											R0250	8,893	8,893
												Total	R0260	15,986	107,130

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development year												Year end (discounted data)
			1	2	3	4	5	6	7	8	9	10 & +		
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100											1	R0100	1
2009	R0160								116	2	-1		R0160	-1
2010	R0170							13	5	-1			R0170	-1
2011	R0180						49	35	20				R0180	21
2012	R0190					88	42	23					R0190	25
2013	R0200				101	341	244						R0200	261
2014	R0210			268	218	125							R0210	133
2015	R0220		1,272	383	185								R0220	198
2016	R0230	7,601	936	353									R0230	377
2017	R0240	6,058	1,210										R0240	1,309
2018	R0250	6,389											R0250	7,001
												Total	R0260	9,323

S.23.01.01 Own Funds

£'000's

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	1	1			
Share premium account related to ordinary share capital	R0030					
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	28,703	28,703			
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	4,682	4,682			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	33,386	33,386			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	33,386	33,386			
Total available own funds to meet the MCR	R0510	33,386	33,386			
Total eligible own funds to meet the SCR	R0540	33,386	33,386			
Total eligible own funds to meet the MCR	R0550	33,386	33,386			
SCR	R0580	17,201				
MCR	R0600	4,300				
Ratio of Eligible own funds to SCR	R0620	194.10%				
Ratio of Eligible own funds to MCR	R0640	776.39%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	33,386
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	28,705
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	4,682
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

£'000's

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	9,941		
Counterparty default risk	R0020	2,144		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	9,783		
Diversification	R0060	-5,153		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	16,715		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	755
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-269
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	17,201
Capital add-on already set	R0210	
Solvency capital requirement	R0220	17,201
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.01.01 Minimum Capital Requirement

£'000's

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	2,499

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	9,675	21,194
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		2
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	

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

Overall MCR calculation

		C0070
Linear MCR	R0300	2,499
SCR	R0310	17,201
MCR cap	R0320	7,740
MCR floor	R0330	4,300
Combined MCR	R0340	4,300
Absolute floor of the MCR	R0350	3,288
		C0070
Minimum Capital Requirement	R0400	4,300