UIA (Insurance) Limited

Annual Reports and Financial Statements for the year ended 31 December 2019 of the Society and its subsidiaries

UIA (Insurance) Limited

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Registered office
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Society registration number
Registered Number 2898R
Co-operative Community Benefit Societies Act 2014

Advisors

Statutory auditor
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United Kingdom

Bankers
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Birmingham B1 2JB

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55 Gracechurch Street
London EC3V 0RL

UIA (Insurance) Limited

Chairperson's Statement

Business Overview for 2019

In 2019 we continued to serve our members in their times of need. Thankfully this past year we did not face a similar magnitude weather event as the 2018 Beast from the East, but our members did need our help when faced with a range of events including floods, fires, theft, subsidence, escape of water leaks and many other insurable events.

In our results we can see the positive outcome from the necessary steps that the Society undertook to improve its financial performance. The result on our insurance business was greatly improved following the pricing, risk selection and claims management actions that we undertook in 2018 and 2019. As always in insurance, there is an earnings lag before the full impact of decisions is seen. Our expectation is that the most significant pricing changes have now been made and we hope there will be a period of relative pricing stability for most of our members. As a mutual we do not seek to make excessive profits and aim to charge our members only a fair premium for their insurance needs. Because we have not charged interest on instalment facilities, or made charges for members who need to make adjustments to their policies, inevitably our headline premiums can appear higher than those of competitors who do make such charges.

The pricing changes inevitably led to some loss of members and this is particularly true of those sourced via the comparison sites, where we no longer write new business.

The significant improvement in our post-tax loss was further helped by the investment gains on our longer term bond portfolio. This resulted in a loss for the year of £1.2m compared with the £8.1m loss in 2018. Due to the significant investment risks associated with Brexit and other worldwide economic uncertainties, the Board decided to further de-risk away from longer term bonds in the autumn. By the year end, the investment portfolio was primarily made up of shorter term bond and cash funds. This does provide some protection from investment variances but, especially in a low interest rate environment, will inevitably mean a reduction in investment income in 2020.

The loss for the year also includes some £0.6m of amortisation in respect of our 'once in a generation' transformation programme. This is progressing well and in 2020 we plan to deliver our new policy administration system and pricing and underwriting tools, which are the final major part of our change programme.

Whilst total assets decreased due to the aforementioned losses, our Solvency Capital Requirement (SCR) coverage has broadly been maintained at 194%. This is comfortably above our own internal risk appetite level of 150% or more. Although the modest loss and adverse pension deficit movements could be expected to reduce the solvency cover, these effects have been largely offset by the benefit from the pricing actions that we have needed to take.

Governance arrangements

There are no significant changes to our governance arrangements where the Society Board is supported by three Board committees. These are: the Audit Committee, Risk Committee and Nominations and Remuneration Committee.

The Board has delegated execution of the Society's strategy to the Chief Executive Officer (CEO). The CEO is assisted in the performance of his duties by the Executive Group. There are also executive working groups covering all aspects of the Society's business.

Business model and outlook

Our business model and strategy remain the same. We are a UK based mutual offering a range of personal lines products, either underwritten by ourselves or by one of our business partners. Our members are based in the UK and we aim to serve those members from our UK operation based in Stevenage.

Our primary focus continues to be on working closely with all our union partners to maximise the benefit to them, their members who are also members of UIA Mutual. We will also write business in other markets where this can support our primary objective and provide additional scale for the business. Opportunities include working with like-minded organisations to offer our core products to their members.

In terms of business outlook there are a considerable number of uncertainties facing the UK insurance industry. As well as Brexit and the wider economic uncertainties referred to earlier; there are also factors such as the impact of climate change which is very difficult to predict. The industry is also waiting on the FCA's publication of its General Insurance Pricing Market Study consultation paper and finalised set of proposed remedies. These are due for publication in Q2 2020.

Subject to all these uncertainties we expect to see further improvement in the business results for 2020. This is because 2020 will be the first year where the full impact of our pricing, risk selection and claims management actions will be seen.

Supporting our community

Our colleagues have supported a number of national fundraising events such as Comic Relief and Children in Need during the year. Our main area of focus for charitable giving has again been at a more local level in 2019. Donations have been made to various hospices and homeless sanctuaries in the region and leading up to Christmas the Society once again donated £2,500 each to the Stevenage Community Foodbank and Stevenage Haven, which looks after young homeless people.

Board composition

I am delighted to welcome Angie Roberts to the Board. Angie is a UNISON nominee and serves on the UNISON NEC. Angie joined the Board on 4 February 2020 and brings with her a wealth of experience from the trade union movement. Angie will sit on the Board and Nominations and Remuneration Committee. We look forward to working with Angie for many years to come.

In June 2019 Marion Saunders retired from the Board after serving the Society for 9 years. During her time on the Board Marion sat on all three of our committees and also served as Senior Independent Director. In this role Marion was the Society's whistle blowing champion dealing sensitively and professionally with difficult issues. I think it is fair to say that colleagues could rely on Marion to be a discrete, confidential sounding board for any issues. I am grateful to Marion for her excellent advice to me as Chair which is the other main role of the Senior Independent Director. Marion performed her duties as a Non-Executive Director with a high regard for the members interests and always provided appropriate challenges to the Executive. We will all miss Marion's contributions at Board meetings.

Our colleagues and members

Our colleagues are the driving force behind all our successes and I would like to thank all our colleagues who have worked so hard in the last year to continue to deliver a high quality service to our members, often at the point where those members feel vulnerable, due to some event affecting their home.

Our 2019 member survey again provided good evidence that our products and services are valued, with 77% of UIA mutual members saying that they 'definitely will' or are 'very likely to', renew their insurance. Our 'how are we doing' surveys elicited a 93% member satisfaction rating across the year.

Finally I would like to thank you, our members for your enduring loyalty to the Society and we hope that we can continue to serve you and your families for many years to come.

Peter Dodd
Chair of the Board
11 May 2020

*S*trategic Report

Society purpose

Our continued aim is to be the first choice personal lines provider to members of trade unions, their families and other like-minded organisations and their members, through the provision of first class service and products.

Business model and strategy

In order to achieve this mission our corporate aim is to remain an independent mutual that is financially strong and operating profitably. Our key measures of strength and profitability are our Solvency Ratio and our Combined Operating Ratio and we aim to deliver these key targets primarily through the underwriting and administration of household insurance, supported by the provision of other complementary products. During the year under review, the Society continued to underwrite Home Emergency Assistance (Class 18) business and also Before The Event (BTE) legal expenses insurance. We also continue to underwrite After The Event (ATE) legal expenses insurance, although this business is largely in run-off. As a mutual, we have no shareholders to pay and we are thus able to generate long-term value to our policyholders. We aim to do this through a combination of excellent customer service, competitive premiums and the prompt payment of all valid claims.

Our commercial strategy is dual focused:

First, to continue extensive engagement with members of our key business partners, the trade unions, through a number of different communication channels, including direct mail, digital media, magazines, conferences and face-to-face contact with key branch, regional and national officials. Through improved communication and products that meet our member's needs we will ensure we deliver insurance products that meet their requirements, enhance their journey from quote to buy, and in some cases to claims notification and settlement, and thus provide the best service to our members.

Second, to offer our products to members of organisations who share our mutual values. To that end we have secured a new partner and plan to start delivering our product through that entity to their members in 2020. This is an excellent example of developing “affinity” relationships with like-minded organisations, as well as demonstrating we have the capability to expand into adjacent markets. Further investment has been made in our sales and marketing teams to do all we can to acquire more members, keep existing members and to deepen our relationships through offering additional 'value adding' products and services.

We are solely UK-based with a call centre encompassing the entire operation from sales and policy administration to claims handling and payment in Stevenage and an out-sourced out-of-hours 24/7 claims service operating from Cardiff.

Review of the business

Our results for the year ended 31 December 2019 are set out on pages 37 to 39 and the balance sheet position at the year-end is set out on pages 40 to 43.

Although 2019 saw the Society continue to make a loss of £1.2m before re-measurement of defined benefit pension liability we have seen a significant improvement from 2018’s loss of £8.1m.

Our underwriting result, a loss of £2.7m was a result of the run off of the inappropriately priced policies identified in early 2018. Adjusted pricing and underwriting actions were introduced in May 2018.

During 2019 we maintained tight controls of our expenses to ensure these were in line with budget.

2019 saw our investments recover from the losses made in 2018, coupled with a return on our investments of 3%. During Q4 we reviewed our investment strategy and de-risked our investment portfolio further. This was done in order to reduce our spread risk and to increase our SCR cover. This will have an impact on our investment return which will be seen in our 2020 results.

Our balance sheet has retained profits of £27.6m (2018:£30.5m) and with a solvency capital ratio of 194% (2018:194%), the Society remains strong. Further information regarding our solvency capital ratio is disclosed in note 4.

BREXIT

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. We underwrite entirely within the United Kingdom. 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.

*S*trategic Report (continued)

As expected, we did not see any significant impact in 2019 due to the transition period. The Society continuously monitors and reviews the impact of Brexit.

Certain 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.

A severe reduction in values of financial markets was included in our Own Risk and Solvency Assessment and the Society continued to meet the required statutory solvency and capital requirements over the business planning period.

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.

Covid-19

At the date of signing of these Financial Statements, businesses across the UK including the Society, are dealing with the challenges posed by the Covid-19 virus.

The Society continues to operate to support its members and other stakeholders including colleagues. From an operational perspective, the Society's business continuity plans have been enacted to enable more remote working in accordance with government guidance. This has resulted in the majority of colleagues working remotely using laptops and home-based Society desktops. The few roles that cannot be carried out remotely such as post opening and distribution, customer mailings, essential IT support and essential Finance activities are continuing to operate from Head Office. These roles are focused on providing essential services for our members and colleagues are applying the safe-distancing guidelines wherever possible

Currently, the Senior Management Team meet on a daily basis to monitor how the contingency plan is working and also to amend this plan based on updates from the UK Government. This forum also allows the team to deal with and resolve issues as they arise, to ensure continuity of service for our members.

From a market risk perspective, the Society has seen a downward impact on asset valuations, however these have been relatively modest to date compared to the equity and other market falls that have occurred. This is due to the Society's investments being mainly in short dated bond and cash funds.

The Society is also impacted by being part of the UNISON Staff Pension Scheme. To date the net impact of market changes on the Society's liabilities in relation to the Scheme has been relatively modest, as asset falls have been broadly offset by liability gains. The Scheme also has in place equity downside protections; these have limited the loss from falling equity markets. Note that even if these equity protections had not been in place, the Society would still have been well above risk appetite in terms of solvency cover.

The strength of the Society's year end unaudited Solvency Capital Requirement cover of 194% has meant that even with the losses seen in March 2020 the Society's cover remains comfortably above its risk appetite. This is largely due to the nature of its lines of business (household, home emergency and legal expenses) and the de-risked investment strategy.

The directors are confident that Covid-19 will not significantly impact the society's ability to meet all current regulatory reporting requirements. The year-end reporting requirements are ready to be filed and the relevant teams are set up to meet the quarter 1 requirements remotely.

Strategic Report (continued)

Key performance indicators (KPIs)

The Board considers that, in addition to the overall result, 2019 loss £1.2m (2018: loss £8.1m), the following metrics represent the key financial dynamics of the Group:

Key performance indicator	2019 Actual	2018 Actual
Financial		
Combined operating ratio	118.9%	138.3%
Household loss ratio	58.7%	80.7%
Underlying household expense ratio	53.2%	49.0%
Commission Ratio	7.0%	8.6%
Retention rate	80.6%	76.5%
Investment yield excluding capital gains or losses	3%	2%
Return on capital employed	(4%)	(20%)
Solvency II cover	194%	194%
Non-financial		
New business policy count		
– Traditional	7,950	10,750
– Comparison site	252	10,607
– Together	28	513
Average new business premium	£194	£171
Acquisition cost per policy	£158	£74

We make use of alternative performance measures as detailed in the Glossary at the end of these financial statements.

Combined operating ratio (COR) is a common measure for insurance companies and is calculated as total costs (claims plus commission and expenses) divided by net earned premium Income.

Our retention rate is good in comparison to our peers, particularly in our core affinity group markets, despite intense competition from the comparison site channels and the increasingly soft market in which we applied rate increases.

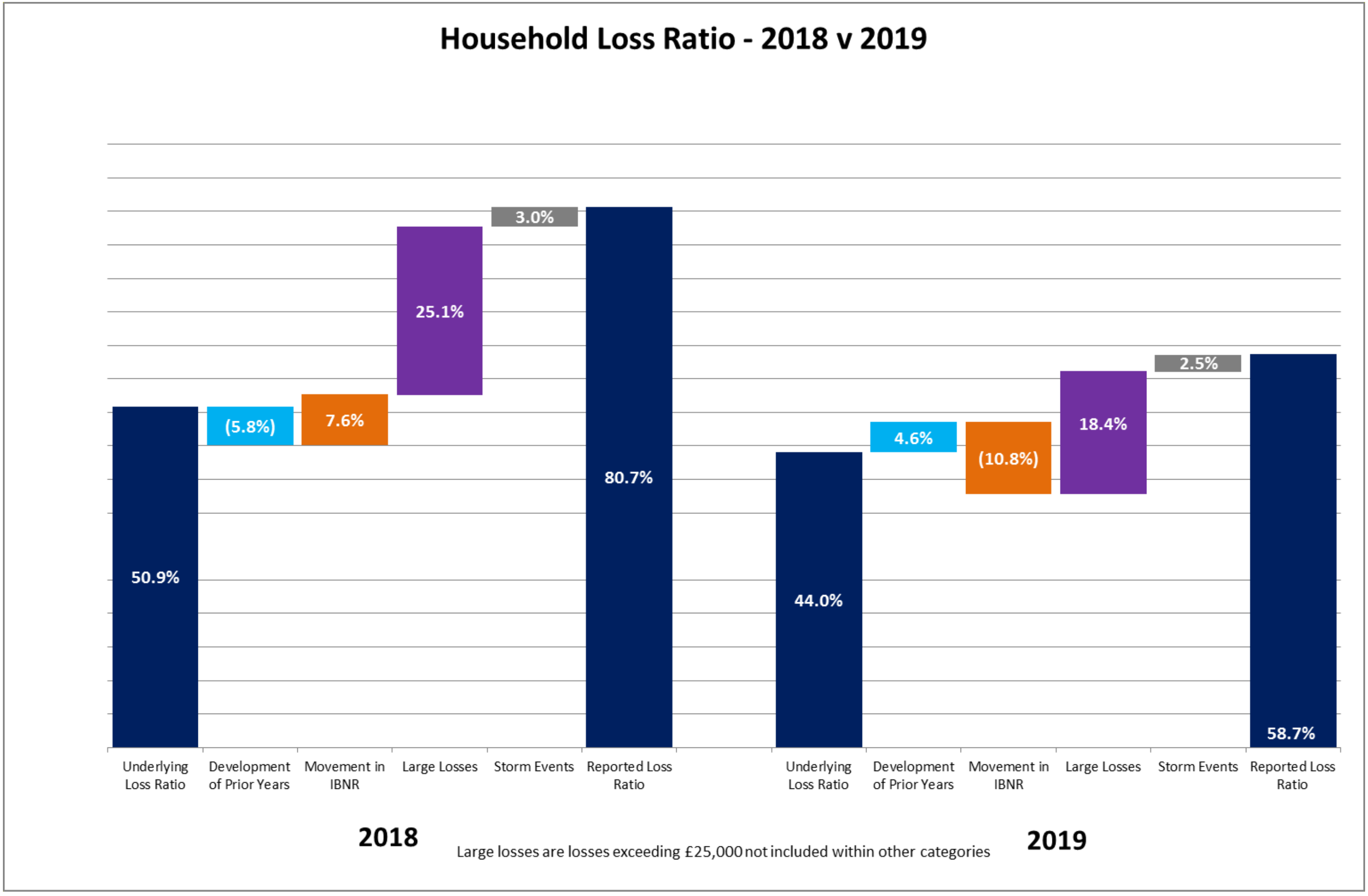
We have maintained our solvency ratio through management actions to de-risk our investment portfolio leading to reduced Market Risk capital required and significantly re-price our business reducing our technical provisions and Insurance Risk capital required. This is offset against an increase in the pension deficit and costs incurred with renewing our administration systems.

The significant drop in new business particularly through the comparison site and Together web channels, was a direct result of our repricing strategy and in line with expectations. This has also resulted in an increase in our Acquisition cost per policy.

*S*trategic Report (continued)

Key performance indicators (KPIs) (continued)

The chart below shows the breakdown of our underlying household loss ratio:



Key conduct indicators

One of the ways in which we can continue to differentiate ourselves as a mutual is to display those attributes that a customer-centric organisation has at its heart. Those attributes of fairness, trust and community coupled with a high level of member service, are key to what we do.

Conduct risk indicator		December 2019	Target	December 2018
Service levels	Customer services (month)	83.2%	>80%	83.6%
	New business (month)	95.5%	>80%	90.1%
	Claims abandoned calls (month)	5.1%	<5%	8.0%
Not taken up	Not taken up (month)	2.5%	<5%	2.9%
Declined claims	Claims declined (for the year)	13.9%	<25%	4.0%
Customer satisfaction	Marketing How Are We Doing (month)	97%	>90%	92.0%
Reportable complaints to Financial Ombudsman	Claims and Customer services (for the year)	16	<25	40

Targets are set internally based on prior experiences as well as looking at industry standards. If a target is missed then this is investigated to see if it is short or long term and if required what actions need to be taken.

Our claims abandoned calls rate has now reduced to an acceptable level as a result of our restructuring of the claims department.

Strategic Report (continued)

Executive pay

The Nominations and Remuneration Committee reviews executive pay using external advisers on a tri-annual basis. On an annual basis, subject to the approval of the Committee, executive pay is increased at the same rate as that applied to our colleagues. For 2019 both non-executive and executive directors declined any increase in pay. The Nominations and Remuneration Committee approved a Transformation Incentive Plan covering the period 2018 to 2020 for executive directors. Details are also disclosed in the Directors Remuneration Report.

Principal risks and uncertainties

Our heat map of principal risks and uncertainties facing the business is shown below:

		Likelihood		
		Low	**Medium**	**High**
	High	**4: Insurance and reserving risk 5: Cyber risk**	**1: Pension risk**	
Impact	**Medium**	**6: Market risk 7: Credit risk 8: Climate change**	**3: Pricing risk**	**2: Business Transformation Risk**
	Low			

Risk Number	Risk heading	Risk description	Controls and actions
1	**Pension risk**	The current employer pension scheme is in a deficit position. The latest triennial valuation took place in 2017 with an overall deficit. This deficit is mainly attributable to UNISON, the co-sponsoring employer of the scheme. This deficit or surplus has changed at each annual re measurement and our share is approximately 5.0%. The scheme has last man standing clause in place, which adds to the Society's risk	A recovery plan is in place and additional deficit repair contributions have been agreed and are disclosed in Note 30: Retirement benefit obligations. UNISON is carrying out a strategic review of its pension provision and the Society is represented at the review meetings. At the date of the accounts this review is still ongoing.
2	**Business transformation risk**	Transformation programme failure and/or significant cost overruns	The transformation programme progress and implementation is reviewed by management, and costs are reviewed by the Board. Successful and timely implementation relies on a third party provider which increases uncertainty. There has been a modest increase in the rating of this risk to reflect a small delay in the delivery of the core policy administration system; the delivery is currently estimated as October 2020.

*S*trategic Report (continued)

Principal risks and uncertainties (continued)

Risk Number	Risk heading	Risk description	Controls and actions
3	**Pricing risk**	The Society operates in a highly competitive market and there is a risk that the Society either charges an inappropriate price for household insurance or fails to react quickly to changing market circumstances which could lead to a poor underwriting result.	The Society's pricing team has implemented a number of tactical moves to improve the underwriting portfolio whilst still remaining within the overall strategy of being the first choice personal lines provider to members of trade unions, their families and other like-minded organisations and their members, through the provision of first class service and products. The Society also closely monitors the FSA's thematic review of overall pricing in the general insurance market.
4	**Insurance and reserving risk**	The Group's business is to accept insurance risk which is appropriate to enable the Group to meet its objectives. Reserving risk is associated with insurance risk and it occurs when claims provisions make insufficient allowance for claims, claims handling expenses and reinsurance bad debt provisions. There is a possibility that the Group's management does not make sufficient provision for exposures which could affect the Group's earnings and capital.	Within a Board approved underwriting policy and agreed risk appetites, the Group seeks to balance this insurance risk with the pursuit of appropriate reward in the form of sufficient levels of insurance premiums. Particular attention is paid to actual and forecast loss ratios, being claims incurred divided by premiums. The Group's actuarial team uses a range of recognised actuarial techniques to project the gross written premium, monitor claims development patterns and determine claims provisions. The Board of Directors review the reserving position quarterly. In addition, the Society purchases catastrophe reinsurance together with per risk and liability protections on an excess of loss basis. The ability to cede part of the portfolio to Flood-Re has also been utilised.
5	**Cyber risk**	The risk that our Information Technology systems are attacked from external sources causing loss of proprietary information, personal data breach, or inability to trade.	The Group has invested in up-grading its Firewalls and continuously monitors any threats or attempted threats. This form of risk continuously evolves and our response needs to be agile to potential threats. The Society's operational resilience continues to be monitored and developed in this respect.
6	**Market risk**	Market risk is the risk arising from fluctuations in the values of, or income from, the Group's assets due to fluctuations in equities, interest rates, and/or exchange rates.	Market risk is managed through our assets being diversified and regular meetings with our investment fund manager.
7	**Credit risk**	The Group's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is that the debtor defaults, thereby impacting earnings and capital.	The Group, through the Board and risk committee, seeks to limit, as far as is practical, exposure to credit risk from its investment and reinsurance activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk.
8	**Climate change**	The risk that climate change significantly increases the risk of natural disasters such as Flooding and windstorm events in the UK.	As an insurer of property, we are exposed to changes in climate that lead to increased windstorms or flooding events. Climate change is slow and affects all insurers and we believe we can adapt to such changes through our pricing and underwriting mechanisms.

Changes to principal risks

Our principal risks are largely similar to last year with the only change being that the business transformation risk has moved from low impact to medium impact owing to a delay in the delivery of the new policy administration system.

Although it has yet to form part of our above schedule, we have a separate risk register for corvid-19 assessing the impact across the Society including members. The risk register is assessing the impact and what controls are being put in place. This is being assessed on a continuous basis. A summary of the impact of Corvid-19 on UIA is on page 5.

Strategic Report (continued)

Reinsurance arrangements

Our core reinsurance arrangements ran from 1 January 2019 to 31 December 2019. The Board approved purchasing cover in line with our Risk Appetite. In addition, we ceded a small number of policies to Flood Re. Our core arrangements for 2020 are in place from 1 January 2020, also in line with our Risk Appetite. We ceded additional policies to Flood Re on 31 December 2019. All other aspects of our reinsurance placement (e.g. credit rating of supporting reinsurers) remain in line with our Risk Appetite.

UIA Charitable Foundation

During 2019 the Charitable Foundation ceased to trade following the decision made in 2018 to focus our charitable work through UIA (Insurance) Limited. The primary reasons were to raise the Society's profile within both the local area and the broader charitable arena with its continued support of the charitable foundations aims, and to save unnecessary costs associated with having a separate charitable entity. The Group remains committed to reinvesting members money's for good charitable purposes.

Future development

Our primary focus continues to be to strengthen and broaden our partnerships within the Trade Union market, and to offer our members competitive household, and other quality insurance products, underpinned by outstanding service levels. We operate within the personal lines market which remains both highly competitive and highly regulated, and as a consequence it is becoming dominated by larger players.

During 2020 we will be launching our new policy administration system to help provide a better service to our members.

Our investment aim is to deliver consistent safe returns for our members in the face of ongoing political and economic uncertainty during our plan period.

Finally, we recognise that all our colleagues are the bedrock of our business, and on which our members rely, particularly when claims are made.

A key focus for 2020 and beyond is, by continuing to underwrite appropriate risks at an acceptable price, whilst maintaining strict budgetary controls over our expenses and project development costs, to return to long-term financial sustainability.

Section 172

Directors' duties include the duty of a director to promote the success of the Society for the benefit of its members as a whole, as covered in section 172 of the Companies Act.

UIA adopted the AFM Corporate Governance Code in 2019, which provides a framework for the Society to not only demonstrate how the Board makes decisions for the long term success of the Society and its stakeholders (as evidenced in Principle 6 – Stakeholders), but also having regard to how the Board ensures the Society complies with the requirements of Section 172 of the Companies Act 2006.

The reporting against the AFM Corporate Governance Principles has been included on page 14.

Throughout 2020, the Board will continue to review and challenge how the Society can improve engagement with its colleagues and stakeholders.

The Directors of UIA understand and accept that they must act in the way they consider, in good faith, would be most likely to promote the success of the Society for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Society's employees;
- The need to foster the Society's business relationships with suppliers, customers and others;
- The impact of the Society's operations on the community and the environment;
- The desirability of the Society maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the Society.

Significant stakeholders, and how they have been considered by the Board within the parameters of s172 of the Companies Act, are shown below:

Climate Change

Looking at Physical risks, the short-tailed nature of household insurance combined with the annually renewable nature of cover allows the Society to respond swiftly to underlying climate change risks observed in experience. This will primarily be through risk selection and re-pricing and other underwriting actions, but can also include reinsurance options. The Society purchases per risk and catastrophe reinsurance to protect against the potential impact of large weather and other catastrophic natural events.

Strategic Report (continued)

In addition, the Society may have opportunities to mitigate risk by helping policyholders take action against risks of climate change (such as education and awareness of anti-flood measures that policyholders can action on their insurable interests).
With regard to Transition risks, our investment managers, RLAM, incorporate environmental, social and corporate governance dimensions when considering asset purchases.

Stakeholder	How stakeholder interests are considered by the Board and the Society
Members of the Society	The Board Directors are appointed by the members at the Annual General Meeting, at which all members are invited to attend and/or vote. An annual membership engagement survey is conducted, along with 'How are we doing' surveys, the results of which are considered at the monthly Commercial Forum, which was formed solely to focus on Members requirements. Complaints and feedback are handled in line with Society and Regulatory policy and fed back into the business for continued improvement.
Trade Union Partners	UIA has a dedicated Partnership Team, who attends and promote UIA's products and services at Trade Union conferences and liaise with Trade Union members and officials, to help best serve our Partners and Members. The UIA Board has two Trade Union nominated members who actively contribute to discussion, challenge and decision making. UIA also provides a Helpline service to UNISON Members through UNISON Direct.
Colleagues	UIA has run an annual Colleague Engagement Survey for the last three years, which captures and tracks feedback from all colleagues. Suggestions and actions that have come out of this survey, and other internal feedback methods, are tracked and progressed through the Colleague Engagement Working Group. UIA also supports colleagues in their CPD, ensuring they meet the IDD requirements and encouraging growth and learning through the UIA training programme, and workshops are offered to develop soft skills throughout the year. Monthly 1:1s between colleagues and managers take place to track performance, feedback, and career aspirations. Frequent organisation-wide communications are sent to all colleagues, and bi-annual Society Briefings are conducted by the CEO to update all colleagues on the Society's performance, goals and news.
Regulatory authorities	UIA operates openly and honestly with the regulatory authorities, appropriately communicating all matters that need to be reported. Regulatory submissions are made to appropriate deadlines, with review, recommendation and approval made through the relevant Board, Committee or working parties, with decisions and approvals tracked and minuted. The UIA Board takes into account regulatory requirements and expectations when undertaking decision making for the Society. All colleagues understand and adhere to the Conduct Rules, and colleagues that fall under SM&CR are appropriately registered and reviewed.
Suppliers	UIA has a dedicated Supply Chain Manger and undertakes appropriate due diligence and contract reviews for suppliers. MI is regularly received-from suppliers and discussed with them at periodic meetings. Suppliers are reviewed at appropriate intervals to ensure that the Supplier is the best fit for the Society and our members. Twice monthly payment runs are actioned for general suppliers, and monthly payment runs are actioned for claims suppliers.
The Community	UIA has policies in place to support colleagues in undertaking voluntary work to serve the Community. UIA has policies in place to cover charitable donations, including charity matching. Local charities within the Community are nominated and supported through the year, and in particular in the run up to Christmas.
The Environment	UIA is operating a programme of change to help ~~do our bit~~ to combat climate change. This includes actioning environmental friendly activities, including significantly reducing single use plastic, adding mixed recycling bins, recycling shredded paper, reducing printing and postage, and promoting a cycle to work scheme. Environmental initiatives, suggestions and improvements are welcomed by management and implemented where possible.

Jon Craven
Director
11 May 2020

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

Strategic Report

The principal activity of the Society is underwriting household insurance business. A review of the year is contained within the strategic report.

Future developments

Details of future developments are contained within the strategic report.

Distribution

The Directors do not recommend the payment of a distribution for 2019 (2018: nil).

Directors

The following Directors held office throughout the year, except as noted below:

Chairperson

Peter Dodd

Executive directors

Jon Craven	Chief Executive Officer
John Nickson	Finance Director

Non-executive directors

Bob Abberley	
Tim Holliday	Senior Independent Director
Lucia McKeever	
Eithne McManus	
Oliver Peterken	
Angie Roberts	Appointed 4 February 2020
Marion Saunders	Resigned 24 June 2019
Tony Woodley	

Charitable donations

During the year we made charitable donations of £5,000 (2018: £15,050). We did not make any political donations in either of 2019 and 2018.

Statement as to disclosure of information to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Society's auditor, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Jon Craven
Director
11 May 2020

Corporate Governance Report

The Directors present their corporate governance report. A brief biography of each of the Directors is given below:

The Board of directors

Peter Dodd
Non-Executive Director – Independent – Chair

Peter was appointed a non-executive Director in 2009. Peter is chair of the Board following PRA approval on 10 February 2017.

Peter worked for the Post Office for 23 years and then for the Communication Workers Union (CWU) for 10 years. Peter held positions within the CWU from 1976 to 2007. He is a Director of the Mechanics Centre Ltd, an Employment Tribunal Member and a Disability Qualified Tribunal member of the Social Entitlement Chamber.

Jon Craven
Chief Executive Officer - Executive

Jon was appointed CEO on 4 April 2016. Jon has extensive experience within the financial services sector and has specific skills in the initiation and delivery of major strategic and profitable partnerships in banking, insurance and healthcare. Prior to joining UIA, he operated as a business consultant to Simply Health and held the position of Commercial Director at Benenden Health. His early career was in the building society sector, specialising in Mortgages and Insurance.

John Nickson
Finance Director - Executive

John was appointed Finance Director on 26 June 2018. John is a Chartered Accountant and Chartered Insurer and has extensive finance experience in a wide range of financial services organisations. Past employers include Wesleyan Assurance, Legal and General Insurance, Ecclesiastical Insurance, the Prudential and Swiss Re.

Bob Abberley
Non-Executive Director - Independent

Bob has been on the Board since June 2014. Bob was previously Assistant General Secretary for UNISON, with responsibilities ranging from inter-union relationships, industrial action strategies and pension governance. Bob is chair of the Nominations and Remuneration Committee.

Bob is a member of UNISON and has been a UIA policyholder for over 15 years.

Tim Holliday
Non-Executive Director – Senior Independent Director

Tim joined the Board in May 2016.

Tim spent 19 years working in insurance for Eagle Star and then Zurich Insurance. Tim was Chief Underwriting officer for Zurich's UK Branch and also Managing Director of Zurich's Personal Lines business including its student broking subsidiary Endsleigh. Tim has also previously sat on the board of the Motor Insurance Bureau and the Insurance Fraud Bureau and is a former President of the Southampton Chartered Insurance Institute.

Lucia McKeever
Non-Executive Director – Independent

Lucia has been on the Board since January 2014 and is a past President of UNISON. Lucia is a champion of equality and human rights, and became active in the trade union movement more than 20 years ago. Lucia joined the Board as a UNISON representative and transitioned to Independent.

Eithne McManus
Non-Executive Director – Independent

Eithne has been on the Board since November 2014 and is chair of the Audit Committee. Eithne is a Fellow of the Institute of Actuaries and a Chartered Enterprise Risk Actuary. Eithne was previously Chief Executive and Chief Financial Officer of City of Westminster Assurance, and is currently a Director of Countrywide Assured, LGPS Central and Scor Life Ireland. Eithne also acts as a consultant and trainer to financial services companies.

Oliver Peterken
Non-Executive Director - Independent

Oliver joined the Board in May 2016 and is Chair of the Risk Committee.

Oliver is Deputy Chairman of the Willow Foundation and is a non-executive Director of MS Amlin plc and chair of their Risk and Solvency Committee, as well as a non-executive Director of UK Export Finance. Previously Oliver was Chief Risk Officer at BUPA UK and at Aspen Insurance Holdings and before that held various senior roles at Willis and the Prudential.

Corporate Governance Report (continued)

The Board of directors (continued)

Angie Roberts
Non-Executive Director – UNISON Representative

Angie was appointed to the UIA Board in February 2020 and is the representative for UIA's Trade Union partner, UNISON. Angie works as an ambulance driver, is a devoted trade unionist, and serves as a Welsh representative on the UNISON NEC.

Tony Woodley
Non-Executive Director – Unite Representative

Tony was appointed to the UIA Board in February 2014 and is the representative for Unite, galvanising UIA's tie-in to the trade union. Tony has extensive experience within the union movement and was instrumental in the formation of Unite, at the forefront of negotiations with his union (TGWU) and Amicus. Tony is still heavily involved in the automotive industry and is a member of the influential Automotive Council UK, a government body designed to improve inward investment and create jobs in the UK.

Statement of compliance with the Association of Financial Mutuals Corporate Governance Principles

The Board supports the principles of good corporate governance and is committed to maintaining a high standard of compliance by adopting the Association of Financial Mutuals Corporate Governance Principles, in the best interests of its members.

The Board considers that throughout the year ended 31 December 2019, the Society has applied the relevant principles and complied with the relevant provisions of the Association of Financial Mutuals Corporate Governance Principles. This is evidenced below:

Principle	Applied	How UIA has evidenced this
Principle one: Purpose and Leadership *An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.*	✓	• Through the leadership of the Board, a clear vision for the Society's purpose is articulated which underpins and defines the strategy and culture of the organisation and is embedded at every level. • The Board works to promote a long-term ethos of inclusion, diversity, community engagement, social responsibility, and environmental sustainability, whilst remaining focused on driving improvements through strategy, serving members, effective oversight, risk management, and complying with regulations. • Policies, processes and procedures are in place to support the execution of the Society's purpose and strategy across the organisation, which drives overall engagement with colleagues, union partners, members and wider stakeholders. • An exercise to refresh UIA's purpose, goals, values and target behaviours took place during 2019 and into 2020, under the Board's direction, to guide the Society's strategy, decisions, processes and culture; ensuring that members, colleagues, and partners remain at the heart of all decisions made. Once set, these values will build on the organisation's existing commitment to good governance and responsibility to members.
Principle two: Board Composition *Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.*	✓	• The Society has in place a Charter, which sets out clear Governance processes, and documents the defined standing items for the Board and Committee meetings. The Board and Committees have agreed terms of reference, and delegated authorities. This allows for both independent challenge and transparency in the Board decision making process. • The Board is supported through the Executive Group, comprised of Heads of Department from within the Society, and has appropriate delegated authority, decision tracking and MI. • UIA has a separate Chairperson and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Society is effectively maintained. The Chairperson is supported by a Senior Independent Director. The Chair was assessed as Independent on appointment, and all Board Level decisions are appropriately tracked, with no individual having undue influence on the decisions or decision making process. • Annual appraisals of the Board Members are undertaken, led by the Chair • Accountability is further driven through internal and external evaluations of the Board, with actions and recommendations tracked appropriately. • The Board is of an appropriate size for the organisation, with composition balanced between executive and independent non-executive directors, with Directors bringing a wide range of experiences, expertise, and backgrounds to allow issues and initiatives to be considered from different perspectives.

Corporate Governance Report (continued)

Principle three: Director Responsibilities *The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.*	✓	• Board appointments have been made with care and to ensure that its membership includes the right and appropriate levels of skills and experience to address the challenges of the business, help drive the strategic plan, and protect the interests of the colleagues, members, partners, and the wider community. • Each Board Member, Director, and approved individual, has a clear understanding of their accountability and responsibilities. These are documented within the UIA Charter and reviewed as appropriate. • The Board tracks its appropriate governance, reserved powers, and delegated authority, through the Society's governance documents and policies, to allow them to undertake their work with due care, aligned to achieving the Society's long-term success and vision. The governance framework in place within UIA supports open and fair business, ensuring that the Society has the right safeguards in place and ensures that the key decisions it takes are underpinned by the right considerations. • Certain governance responsibilities are delegated to the Board Committees. These Committees include both Independent Non-Executive Directors and Trade Union Nominated Directors, and support effective decision making and challenge. • The Board receives regular and timely information on all key aspects of the business, through Quarterly MI, and regular communication from the business on key issues and areas highlighted.
Principle Four: Opportunities and Risk *A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks*	✓	• Through clear definition of the Group's corporate purpose and values the Board's decisions are focused on promoting and delivering long term value; at the heart of which are its members. This is embedded across the Group's key operating businesses and strategic decision-making areas. • The Society has an established internal control framework, and clearly drafted roles and responsibilities for the Board and Committees. • The board has the overall responsibility of strategic decision-making and risk management and this is managed through the Risk Committee at a Board level and through a Risk Working Group at operational level. Principle operational risks have been identified across the Society with robust reporting to the Board to address these. These are articulated in the annual report. • The Board seeks out opportunities drawn from the business, and the committees to which it delegates. The addition of a Chief Commercial Officer has refreshed discussions around new opportunities, which are then discussed by the Board to ensure they are in the members' interests, and fit with the Mutual ethos and UIA's values.
Principle Five: Remuneration *A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.*	✓	• The Society's remuneration policy is set out and monitored by its Nominations and Remuneration Committee. The remuneration is set with the objective of long-term success of the Society's strategic goals and business plans. • The Colleague Remuneration Strategy, and pay banding is set by the Executive Group, in conjunction with the Unite Union. The Colleague Recruitment and Reward Working Group meets monthly, and has members from HR, Executive Directors, and a Union Representative present. • Each role within UIA was considered by the Job Evaluation Panel, which has undergone specific training and has had attendance from external expertise, to allocate each role a points-based score, to set the salary banding for each position. Every new role is considered individually by the panel, to set the remuneration at an appropriate level. • The Nominations and Remuneration Committee consider and set the Executive and Senior Management Function remuneration. • Succession planning and talent retention are key focus areas for the

		Society and at operating business levels.
Principle Six: Stakeholder Relationships and Engagement *Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.*	✓	• The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver the purpose and to best serve the members, colleagues, and entire stakeholder community. • The Member Engagement Group meets monthly to discuss feedback from members, and considers the impact of strategy and any business or regulatory changes on the members. In addition to the feedback received through regular surveys, UIA conducts annual member engagement surveys which work to determine the Net Promoter Score (NPS) of the business, which is then benchmarked and communicated to the Board. • The Society holds an Annual General Meeting. Members vote on issues such as Executive and Non-Executive re-elections, approval of the Financial Statements and Accounts, remuneration, and reappointment of the Auditors, with 2.45% of members voting in 2019. The vote is run and counted by an external company to ensure independence • UIA has operated alongside Trade Unions for over 125 years and continues to work closely with the Union Partners. Certain non-executive directors are nominated by the trade union movement. • The Society conducts an annual Colleague Engagement Survey, which assesses a wide range of factors to identify areas to celebrate, and areas of improvement. The anonymised results are communicated to the Executive Group, Nominations & Remuneration Committee, and Board, and are published on the intranet for colleagues to view. • The Colleague Engagement Working Group meets monthly to consider feedback, and help create a positive working environment. • UIA continues to work with local projects that support and develop the social aims and aspirations of not only the trade union partners, but also the staff who have raised additional funds for local causes. • UIA has in place a Corporate Social Responsibility Policy & Procedure, which lays out the Society's policy for colleagues on volunteering,

Corporate Governance Report (continued)

Role of the Board

The role of the Board is to set and manage the strategy for the Society in a manner that upholds the vision of the organisation and to deliver the maximum value to the Society for the benefit of its members, whilst complying with the relevant regulatory requirements, and that the Society meets the rules and has the highest corporate governance standards.

The Board usually has six regular formal meetings in a year but other meetings are convened as required to allow the Board to review the Society's strategy and to agree the plans and budget for the forthcoming year.

Board's reserved powers

The Statement of the Board's Reserved Powers is set out in the Society's Charter and relates in the main to factors affecting the long-term strategy of the Society, while day-to-day decisions are delegated to the Executive Directors. These powers are set out below.

The Board reserves itself to decisions that determine:

- The long-term prosperity, viability, security and reputation of the Society;
- Policies governing the way the Society is perceived and treats others;
- Relations with stakeholders;
- Policies covering material financial matters and commitments, statutory obligations, compliance, probity and ethical matters;
- Matters concerning the Board and senior management; and
- Delegated authority levels.

Insurance

The Society has a Directors' and Officers' insurance policy covering any potential legal actions against the directors arising in the performance of their duties with an aggregate limit of £5 million. This cover was in force during the year and as at the date of signing this report.

Chairperson and Chief Executive Officer (CEO)

The roles of Chairperson and CEO remained separate throughout the year and their respective responsibilities have been agreed by the Board. The Chairperson's main responsibility is to lead and manage the work of the Board, to ensure it operates effectively, fully managing its responsibilities and ensuring the effective engagement and contribution of all Directors. The Chairperson encourages and promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. Responsibility for the day-to-day management of UIA is delegated to the CEO, supported during 2019 by the Finance Director and other senior managers within the Society.

Non-executive directors

At the start of the year, the Board comprised of the non-executive chairperson plus seven non-executive directors and two executive directors. Following the departure of Marion Saunders in June 2019, the Board comprised of the non-executive chairperson, plus six non-executive directors and two executive directors until the appointment of a further non-executive director on 4 February 2020.

The Society has six non-executive directors who fall within the definition of "independent" as outlined in the AFM Corporate Governance Principles.

The Board believes that it functions effectively and efficiently and is of an appropriate size to provide a balance of skills and experience, manage conflicts of interest and allow changes in composition without undue disruption. It also believes that it was able to provide leadership and give direction without any imbalance that may have allowed one individual or group to dominate decision-making.

The Board regularly reviews its own balance, diversity, and effectiveness to meet the Society's requirements and business strategy.

The Board has appointed a Senior Independent Director as required, to provide an alternative point of contact to the Chairperson, and Executive Directors, for members who have concerns that cannot be addressed through the normal channels. The Senior Independent Director also leads the appraisal of the Chairperson and the Board.

Corporate Governance Report (continued)

Board appointments and re-election

All Board appointments are subject to a rigorous process instigated by the Nominations and Remuneration committee, and ratified by the Board.

All Non-Executive Directors receive a full, formal and tailored induction on joining the Board.

All Directors are subject to election by the members at the Annual General Meeting following their appointment. They are required to seek re-election every three years following their first election. Before being appointed as a new Director, an individual is required to provide details of their current other commitments for review to ensure that they can carry out their role effectively and efficiently. In addition, all Directors are required to be notified to the Prudential Regulation Authority and Financial Conduct Authority, with roles, such as the Chairperson and certain Committee Chairs requiring prior approval before they can operate as a Director or Chairperson.

Board performance evaluation and training

Members of the Board have participated in in-house training activities covering our business transformation programme and regulatory and compliance matters.

Information and support

All Directors are authorised to seek, at the Society's expense, appropriate professional advice which enables proper discharge of their collective responsibilities.

Board diversity policy

At the April 2019 Board meeting, the Board agreed a diversity policy, which still stands. It was agreed that the Board is fully committed to the elimination of unlawful and unfair discrimination and values the differences that diverse individuals brings to the organisation, and also the Board of UIA.

The Board will not discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. It will not discriminate because of any other irrelevant factor and will build a Board culture that values meritocracy, openness, fairness and transparency.

Duty to prepare accounts

The Directors acknowledge their responsibilities for preparing accounts and a full statement of Directors' Responsibilities is set out on page 27. These narrative statements, together with the Consolidated Statement of Profit and Loss, the Consolidated Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the accounts, provide relevant and proportionate detail to our members in order for them to assess business performance and business strategy. The Directors also consider that this annual report and accounts together, taken as a whole, represent a fair, balanced and understandable view of the business at the present time and provides the information necessary for a proper assessment of the performance of the Society.

Going concern and future viability

Going concern

The Strategic Report provides an overview of business performance, together with the Society's key performance indicators in respect of the year ended 31 December 2019. The Strategic Report also provides detail with regard to the Directors' assessment of the major risks and uncertainties facing the business in the future.

We have adopted the going concern basis in respect of the preparation of the accounts for the year ended 31 December 2019 as we have adequate financial resources in order to meet our liabilities as they fall due. We have total assets of £64m including investment and cash assets of £48m. Our unaudited fourth quarter reported Solvency Capital Ratio was 194% as at 31 December 2019.

As a result of de-risking our insurance assets by moving them into shorter dated bond and cash funds we have reduced the impact of recent market volatility to the Society.

The Society is exposed to some volatility in its share of the pension scheme assets; these equities are protected by a collar arrangement which provides some protection from equity market falls. Note that solvency cover would have still been above risk appetite, even if these protections had not been in place.

Based on a review of the strategic plan and other financial reports the Directors have a reasonable expectation that the Society has adequate resources to continue in operation for a period of at least 12 months from the date of approval of the Reports and Accounts.

Corporate Governance Report (continued)

Due to the nature of our lines of business, we do not anticipate any significant exposure to liability risk from climate change. This is further explained in our SFCR.

Please see page 5 with regards to the impact of Covid-19 on the Society.

Future viability
As described in the Strategic Report, we have considered the principal risks and uncertainties facing the Society, including those that impact the Society's solvency, liquidity and profitability, as shown in the Society's Risk Register. An assessment of the appropriate period to consider the Society's future viability was carried out and the Audit Committee recommended to the Board that we continue to use a period of three years as there was no material change to our confidence in our business plan and our solvency forecasts as adopted through the Own Risk and Solvency Assessment (ORSA) process, since the previous assessment.

Our ORSA forecasts covering an initial 3-year period, and subsequently an extended 5-year period to 2024, were stress tested under the following conditions:

- Equities drop by 30% combined with pension liability shock of £5m
- Economic shock (Brexit and/or financial impact of climate change): All credit ratings drop one EIOPA quality step (equivalent to 3 rating notches) whilst corporate bonds below BB+ default and Equities fall 20% + Sustained COR at 120% due to increased claims frequency (e.g. subsidence) reducing to 110% from 2022 onwards
- £15m windstorm + £5m flood + £1m attritional claims shock + largest reinsurer defaults (potentially relating to climate change)
- Sharp decline in retention rates on GH/BH over business plan horizon + Sustained COR at 120%, due to a combination of small events and poor underwriting (potentially relating to climate change, including subsidence, and high claims cost inflation – 8% p.a. – with a pricing lag)
- Renewal book purchase providing an additional 10k policies on a basis similar to our existing affinities, with on-boarding costs of £0.5m
- Adverse impact of FCA thematic pricing review, resulting in a sharp reduction (75%) in new business due to much more limited ability to offer new business discounts
- Reverse Stress Test 1: Combination of 1, 2 and 3 above at appropriate severities to result in failure
- Reverse Stress Test 2: £50m Cat Event (climate change related)
- Reverse Stress Test 3: Sustained significant further reduction in Risk Free Yield Curve (0.5% base rate to 1% at long-term), with equity markets and yield spreads assumed unchanged

Having reviewed the business plans and underlying assumptions on revenue growth, claims ratios and expenses, including the Society's solvency under normal and the individual stressed conditions described above prior to any management actions that would be taken over the period, the Directors have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Risk management and internal controls

The Society is committed to high standards of risk management and internal control. The Board is accountable to the members of the Society for ensuring that 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.

During 2019 and up to the date of approval of the annual report, the Society has operated a system of internal control which 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 the Society. The 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 auditors and any significant issues arising from them;

Corporate Governance Report (continued)

- The Audit Committee reviews accounting policies; and
- The Risk Committee and the Board consider 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 2019, the information received and considered by the Audit Committee provided appropriate assurance about the control environment.

The Board has 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 the Society's 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;
- Detailed financial controls to safeguard assets from inappropriate use or loss;
- Monthly monitoring of key performance indicators against plans for the year;
- 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;
- Appropriate Handover Procedures;
- Duty of Responsibility;
- Conduct Rule training and awareness;
- Clear roles and accountabilities with regular performance reviews; and
- A whistle blowing procedure to enable staff to raise concerns in confidence.

The Board actively encourages a culture of continuous improvement to ensure systems of control are maintained.

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 significant changes to the Society risk register.

The Board confirms that there has been in place for the year under review an ongoing process for identifying, evaluating and managing the risks faced by the Society that are significant to the achievement of its business objectives.

In light of the above, 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.

We present our principal risks and uncertainties within our strategic report and our exposures to price, credit, liquidity and cash-flow in Note 4 to the Reports and Accounts.

Internal audit function

During the year under review, our internal audit function remained 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 the Audit Committee, and through the Internal Auditor's own independent assessment. The Internal audit function reports directly to the Chair of the Audit Committee.

Annual general meeting (AGM)

The Board believes that it is important to obtain the views of its members and understand any issues which may concern them. The Society gathers valuable feedback from members using questionnaires and surveys. The AGM is another opportunity for the Society to communicate with members. The Directors attend the AGM and members have the opportunity to ask questions during the meeting and to meet Directors following the conclusion of the formal part of the meeting.

Corporate Governance Report (continued)

The 2020 AGM is being held on Tuesday 23 June 2020 at 1 pm in the Aston Suite, The Holiday Inn Stevenage, St. Georges Way, Stevenage, Hertfordshire, SG1 1HS. Formal notices will be issued to members in due course. At the 2019 AGM, a number of resolutions were voted on as below:

Resolution	% for
• To receive the annual report of the Board, the auditor's report and the audited financial statements for the year ended 31 December 2018	98.05
• To approve the remuneration report for the year ended 31 December 2018	96.20
• To re-appoint Deloitte LLP to be auditors of the Society, to hold office until the next Annual General Meeting, and to agree that their remuneration will be determined by the Board	96.06
• To re-elect Bob Abberley as a Board member for a period of 3 years	97.54
• To re-elect Oliver Peterken as a Board member for a period of 3 years	97.48
• To re-elect Tim Holliday as a Board member for a period of 3 years	97.47
• To re-elect Lucia McKeever as a Board member for a period of 2 years	97.91
• To re-elect Jon Craven as a member of the Board	97.72
• To elect John NIckson as a member of the Board	98.16

Corporate culture

The Board actively supports a strong and open ethical corporate culture where colleagues can act and speak openly about any subject which affects them. The Society has a whistle-blowing policy and supports the development and enhancement of other culturally minded policies as part of the Human Resources development project. During 2018 and 2019 the Society engaged with an external party to undertake a colleague engagement survey following on from the survey conducted during 2017. The results of this latest survey are being examined by the Board and executive management with actions being taken where appropriate. We have committed to our colleagues that further surveys will be undertaken through 2020.

Regulation

The Board is very mindful of the expectations of its two regulators, the PRA and the FCA. It fosters and maintains a culture of regulatory awareness and openness throughout the Society and is committed to operating all aspects of the business in a compliant fashion.

Environmental

The Board is aware of its environmental foot print and impact on the local economy. We consider ourselves to be a significant employer in the local economy.

Board committees

The Board has established Committees to deal with certain functions in detail. The Terms of Reference of the committees are detailed in the Board Charter. Details of the Board Committees are as follows:

Attendance of Directors at 2019 board and committee meetings

	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Director	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Bob Abberley	8 (9)	4 (5)	-	2 (2)
Jon Craven	9 (9)	5 (5)	5 (5)	2 (2)
Peter Dodd	9 (9)	4 (5)	4 (5)	2 (2)
Tim Holliday	8 (9)	5 (5)	5 (5)	2 (2)
Lucia McKeever	9 (9)	-	5 (5)	2 (2)
Eithne McManus	9 (9)	5 (5)	5 (5)	1 (1)
John Nickson	9 (9)	5 (5)	5 (5)	2 (2)
Oliver Peterken	8 (9)	5 (5)	5 (5)	-
Marion Saunders	3 (3)	2 (2)	-	1 (1)
Tony Woodley	8 (9)	-	4 (5)	2 (2)

The number in brackets represents the number of meetings that the Director was eligible to attend during the year.

The chair of the Board is Peter Dodd, and the chair of the Audit Committee is Eithne McManus. The chair of the Risk Committee is Oliver Peterken. The chair of the Nominations and Remunerations Committee is Bob Abberley.

Changes to Directors in the year are noted in the Directors' report on page 12.

Audit committee

The Audit Committee presents a separate report on Page 24.

Risk committee

The Committee met five times in 2019 and is chaired by Oliver Peterken.

The Committee assists the Board in establishing, monitoring and amending the effectiveness and appropriateness of the Group's risk and management strategy and policies. At least once a year the Committee reviews the Risk Appetite and reports to the Board any recommendations including assessing the appropriateness of the Corporate Plan in the context of Risk Appetite. At each meeting it reviews the Risk Register to ensure that 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 mitigate or minimise 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.

It reviews the Own Risk and Solvency Assessment (ORSA) policy and the ORSA itself, including having an input into the choice of stresses and scenarios that are considered as part of the ORSA and the appropriateness of the Standard Formula for the purposes of setting the Solvency Capital Requirement (SCR). The Committee encourages a culture of risk awareness throughout the Society. It provides advice on aspects of risk on request from the Board.

The 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:

- Review and recommend for approval the ORSA;
- The Society's risk appetite statement;
- Review and monitor the risk management framework and internal controls systems;
- Review of committee effectiveness;
- Review of the commission disclosure statement; and
- Monitor and review of the investment strategy and investment management arrangements.

On 3 February 2020, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2019.

Nominations and remuneration committee

The Committee met two times in 2019 and is chaired by Bob Abberley. The responsibilities of the Committee include reviewing the Board's structure, size and composition, selecting and proposing to the Board suitable candidates for appointment as directors, and succession planning. The Committee considers the balance of skills, knowledge, experience, length of service, independence, diversity, gender, potential conflicts of interest and time commitment for all directors.

The Committee determines the remuneration policy and individual remuneration packages for directors. It reviews and approves changes to their annual salaries, performance award arrangements, fees, service contracts and other employment conditions.

Executive and non-executive directors' remuneration is externally benchmarked every 3 years, the last being in 2019. In the intervening years, their remuneration is increased at the same basic inflationary rate as those awarded to our colleagues.

On 30 March 2020, the Committee carried out a review of its activities for the year and was able to confirm to the Board that it had discharged its responsibilities to the Board in respect of the year ended 31 December 2019.

By order of the Board

Jon Craven
Director
11 May 2020

Audit Committee Report

Membership

This Committee assists the Board in discharging its responsibilities for the integrity of the financial statements and for ensuring the effectiveness of systems of internal control. It also assists the Board in providing leadership, direction and oversight with regard to the Society's governance and regulatory policies and procedures, including those relating to compliance, financial malpractice and internal non-financial controls.

All members of the Committee are Non-Executive Directors and three members of the Committee have recent and relevant financial experience. Three Committee members have expertise in insurance, including one member with specific household general insurance experience

The committee met five times during 2019. The committee invites a number of attendees to its meetings during the year, including the CEO, the Finance Director, the Head of Compliance, the external and internal auditors, the Chair of the Board and members of senior management. The committee also met separately with the internal and external auditors without Executive Directors or management present.

Activity

The Committee is authorised to investigate any activity within its terms of reference. It monitors the integrity of the financial statements of the Society, reviewing the significant reporting judgements, in particular going concern, the adequacy of insurance technical provisions and the calculation and recognition of retirement benefit obligations contained in accounts. It reviews the Society's internal financial controls and the internal control and risk management systems.

On 30 March 2020, the Committee carried out a review of its activities for the year in order to discharge its responsibilities to the Board in respect of the year ended 31 December 2019.

Significant issues considered by the Committee

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

- An assessment of the significant estimates and judgements used by the Directors in preparing the financial statements including the technical provisions, the unexpired risk provision and the assumption of going concern;
- An assessment of the method and assumptions used to determine the Pension Scheme liability in the financial statements;
- The Solvency and Financial Condition Report (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 PRA's policy on the external audit of the public disclosure requirement set out in their Policy Statement PS25/18.
- The service provided by the external auditor, and the external audit management letter.
- The compliance monitoring plan, and regular compliance reports.
- The internal audit plan, the main Internal Audit findings and progress throughout the year in addressing these findings.
- A quarterly review carried out on the technical provisions, and progress in refining the methodology used.

Internal audit

Over the course of the year, the Committee monitored and reviewed the effectiveness of the Society's internal audit function, reviewed and approved the plan for the following year and considered all material findings and recommendations raised in respect of specific audits.

In addition, the Committee reviewed the effectiveness of RSM, the Internal Audit service provider, and concluded that it played an effective and important role in the overall control framework. It agreed to extend the appointment of RSM in this role for a further 3 years.

External audit

Including this year end, our external auditor, Deloitte, has audited seven sets of financial statements for us, following a tender process in 2013. The Committee reviewed the quality of the service provided and concluded not to retender for the external audit service at this stage.

Our audit partner, David Heaton stepped down upon competition of our 2018 audit and has been replaced by Adam Addis.

Eithne McManus
Chair of the Audit Committee 11 May 2020

Directors' Remuneration Report

Remuneration policy for executive directors

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

Salaries

Base salaries are reviewed tri-annually using external consultants. This was last carried out in 2019 and the next review is in 2022. In the intervening years, subject to the approval of the Nominations and Remuneration Committee, the policy is to increase base salaries at the same basic inflationary rate as the Society's colleagues.

Variable pay

Annual bonus
Executive Directors are eligible to participate in an annual performance-based, cash performance award scheme. The Committee reviews and agrees performance award targets and levels of eligibility annually. The performance award is based on two factors: overall underwriting performance and on achievement of a set of personal objectives, which directly support the business plan. The first factor is designed to pay out a maximum of 5% of base salary and there is a threshold below which no performance award is paid. Total awards for exceptional performance will not exceed 35% for the CEO and 20% for the Finance Director. No awards are to be made in respect of the 2019 year financial year.

Transformation Incentive Plan
The Transformation Incentive Plan is a three-year scheme covering the period 2018 to 2020 and is available to executive directors. Non-executive directors are not eligible to participate in the scheme. The scheme will be settled at the end of the three-year period in April 2021.

There are two targets, the bonus target and a higher maximum bonus target. The target bonus and maximum bonus opportunity awards as a % of salary are as follows:

	Bonus target	Maximum bonus target
Chief executive officer	40%	80%
Executive directors	24%	48%

There are 4 measures used that are linked to our transformation incentive plan:

- Combined operating ratio
- Solvency capital requirement
- Colleague engagement survey
- Customer satisfaction measures

All measures need to be successfully met before any award is made and the bonus target and bonus opportunity is split equally across all 4 measures. The measurements are taken for the 2020 financial year. The maximum amount that can be awarded will not exceed 50% of annual salary in any one year over the three year period. No awards have been accrued for in respect of the 2019 financial year.

Pension

Executive directors are eligible to be members of UNISON's Staff Pension Scheme, which is a defined benefit plan with a pension paid on retirement based on salary and length of service. Contributions of 9.1% were made in 2019 by way of salary sacrifice by the directors that elected to join the scheme, and a further 26.8% by the Society. Additionally, social security taxes associated with the salary sacrifice are contributed. Future contributions rates are disclosed in Note 30: Retirement benefit obligations. A director who doesn't join the scheme is eligible for a pension allowance. The Society provides a lump sum benefit of four times basic salary in the event of death in service to executive directors, either through the scheme or independently.

Other benefits

Executive directors are provided with a car or receive a car allowance equivalent in value to the maximum permitted lease cost, plus insurance and servicing costs. The maximum permitted value varies with the role. In addition executive directors are eligible to participate in the Society's Healthcare Cashplan arrangement which is run by Westfield Health.

All executive directors have contracts of employment incorporating their terms and conditions that are normally terminable by either party giving six months' notice.

	Jon Craven £	John Nickson £
Salary and Fees	155,754	130,000
Pension and travel allowance	36,861	44,440
Other benefits	560	560
Total 2019	**193,175**	**175,000**
Total 2018	193,428	83,312

Directors' Remuneration Report (continued)

Remuneration policy for non-executive directors

Fees for Non-Executive Directors are reviewed annually by the Nominations and Remuneration Committee with changes normally effective from 1 January. Fees are designed to recognise their responsibilities and are reviewed using external third-parties on a tri-annual basis. This was last carried out in 2019. In the intervening years, subject to the approval of the Nominations and Remuneration committee, the policy is to increase base salaries at the same rate as the Society's colleagues.

The policy is to allow discretion to accommodate the need to attract different skills, experience and knowledge. Fees comprise a basic annual fee, paid in monthly instalments. Fees are neither pensionable nor performance-related and Non-Executive Directors do not participate in any bonus schemes. The basic salary for the Chairperson is £47,427. The basic salary for the Non-Executive Directors is £28,035 (2018: £28,035), with industry specialist Non-Executive Directors receiving £31,618. Committee chairs are paid an additional £3,162 in recognition of their additional responsibilities. If Non-Executive Directors and chairs of Committee are appointed or resign during the year, then a pro-rata fee is applied.

	Salary and fees 2019 £	Salary and fees 2018 £
Peter Dodd	**47,427**	48,202
Bob Abberley	**31,197**	30,422
Tim Holliday	**34,780**	32,935
Lucia McKeever	**28,035**	31,197
Eithne McManus	**34,780**	34,780
Oliver Peterken	**34,780**	34,780
Marion Saunders	**14,018**	29,879
Tony Woodley	**28,035**	28,035
Total	**253,052**	270,230

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. The Co-operative and Community Benefit Societies law, as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 (the Regulations) and the Companies Act 2006 require the Directors to prepare financial statements for each financial year. In accordance with the Regulations the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under the Regulations the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Regulations. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website.

Jon Craven
11 May 2020

Independent Auditor's Report to the Members of UIA (Insurance) Limited

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of UIA (Insurance) Limited (the 'society') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the society's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014 and the Insurance Accounts Directives (Miscellaneous Insurance Undertakings) Regulation 2008.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the balance sheet of the society;
- the consolidated statement of changes in equity;
- the statement of changes in equity of the society;
- the consolidated statement of cash flows; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.
We are independent of the group and the society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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 confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the society.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Impact of Covid-19 as a subsequent event; • Valuation of technical provisions; • Valuation of defined benefit pension scheme; and • Revenue recognition; Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £414k which was determined

	on the basis of 1.5% of net assets.
Scoping	Our audit scoping provides full scope audit coverage of 100% of net earned premium and 97% of net assets.
Significant changes in our approach	We have used 1.5% of net assets as the basis for materiality which is different to the 1.5% of net earned premium which was used in the prior year. We have changed the benchmark for our materiality determination to align with standard market practice for the audit of mutual societies based on information published in publically available audit reports. Given the rapid spread of Coronavirus ("COVID-19","the virus") and the ongoing uncertainty surrounding its impact after the balance sheet date, and due to the inherent management judgement in determining the appropriateness of related post balance sheet event disclosures, we have enhanced our risk assessment and focused a greater degree of audit effort over the appropriateness of such disclosures in the financial statements. In accordance with this greater level of audit effort, we have identified a new key audit matter in the period relating to the appropriateness of the COVID-19 post balance sheet event disclosures. There have been no other significant changes to our audit approach from the prior year.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the directors' statement in note 2.1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and the society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the society's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 8-9 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 19 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 19 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Impact of Covid-19 as a subsequent event

Key audit matter description

As disclosed in Note 4, subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus ("Covid-19", "the virus") has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the society is exposed, have led to increased volatility and economic disruption. Management judge the matter to be a non-adjusting event in accordance with accounting standards, since it is indicative of conditions that arose after the reporting period. It is therefore not reflected in the measurement of assets and liabilities at the balance sheet date.
In response to Covid-19, management has made updates to its financial statements to disclose Covid-19 as a subsequent event, and has assessed the impact on going concern. To support this management performed actions to assess the financial and operational impacts of Covid-19 up to the date of approval of the financial statements. Key actions comprise:
• Operation of a risk management framework and business continuity plan to ensure an appropriate capital surplus is maintained to meet liabilities as they fall due, including consideration of deterioration in the spread and impact of Covid-19 in markets to which the society is exposed. This includes having robust plans for certain management actions if the society falls outside its approved risk appetite;
• Frequent monitoring of the society's outsourced operations and its ability to continue to serve customers, comply with conduct regulations and maintain appropriate internal controls;
• Frequent monitoring of the society's solvency coverage ratio; and
• Monitoring the society's capital and liquidity position including asset credit quality, and taking action where defined triggers are met in relation to market and interest rate risks.
The assessment of the impact of Covid-19 on the society requires management judgement and consideration of a range of factors. Having considered the results of the activities described above, management believes the society continues to be a going concern due to having a stable solvency position and appropriate plans to manage liquidity and credit risks. The society has made disclosures to reflect the results of its assessment in the Strategic Report, and note 3 Critical accounting judgements and key sources of estimation uncertainty including subsequent events

How the scope of our audit responded to the key audit matter

To address this key audit matter, we :

- evaluated management's approach to assessing the impact of Covid-19 on the society and its financial statement disclosures;
- evaluated management's stress and scenario testing including solvency coverage ratio and market and interest rates risks, and challenged management's key assumptions, assessing its consistency with other available information and our understanding of the business;
- evaluated management's assessment of the risks facing the society including liquidity risk, asset credit risk and operational matters;
- made inquiries of senior management in relation to their assessment of the impacts of Covid-19 on the society, including further steps the society will take in case economic and other factors deteriorate further;
- inspected correspondence between the society and its regulators related to the society's

	responses to the emergence of Covid-19; and • assessed the disclosures made by management in the financial statements against applicable accounting standards, assessed management's judgment that Covid-19 is a non-adjusting event and evaluated the consistency of the disclosures with our knowledge of the society.
Key observations	Based on the audit procedures performed, we concur with management's judgments and consider the disclosure of the potential impact of Covid-19 in the financial statements to be appropriate.

5.2. Valuation of technical provisions

Key audit matter description	Insurance reserving for Household Incurred But Not Reported (IBNR) and specific loss events such as floods and fire, or any weather related events, remains the largest single area requiring significant management judgement. A small change in key assumptions could result in a material change in the financial statements and hence represents the key opportunity for management to manipulate the financial results and is considered a potential fraud risk. We have identified the valuation of the Subsidence and Escape of Water ('EoW') subgroups within the Household book as a key audit matter. The assessment of the calculation of the insurance technical provisions for claims outstanding requires management to make significant judgements in respect of the quantum of the ultimate cost of settling claims as set out in the accounting policy for claims incurred in note 2 to the financial statements. Note 3 to the financial statements highlights the critical accounting judgements and key sources of estimation uncertainty, whilst the strategic report highlights the principal risks and uncertainties facing the society where this matter is also discussed. The reserve for total gross claims outstanding was £10.8m at 31 December 2019 (2018: £13.9m) as set out in note 22 to the financial statements.
How the scope of our audit responded to the key audit matter	To address this key audit matter, we: • obtained an understanding of the relevant controls around the reserving process; • met with senior management involved in the reserving process where we discussed and challenged the reserving methodology, considering changes in assumptions from the previous year-end, and a review of internal and external reserving reports; • checked that reserving reports align to the data provided by UIA and tested the underlying data used in the reserving process. This has been done by reconciling the inputs to the audited claims data in order to evaluate its completeness and accuracy; • with the involvement of our actuarial specialists, we challenged the methodology and significant assumptions inherent within the Household claim reserves and evaluated the level of prudency applied. We have compared the reserves to industry averages and, where applicable, obtained explanations for any significant variances; • performed diagnostic checks in order to assess whether the Household claims reserves appear reasonable or not. In particular, we discussed and questioned management over the appropriateness of UIA's methodology in relation to Subsidence and EoW losses and the appropriateness of use of only incurred claims data in estimating technical reserves, and whether management considered any other data such as paid claims; • checked the 2019 settlement experience for previous years' claims against assumptions made in the prior year to assess management's level of accuracy in predicting the uncertainties considered in calculating technical reserves; and • checked appropriateness of the disclosures in the financial statements relating to the valuation of technical provisions.
Key observations	Based on the audit procedures performed, we concluded that the valuation of technical provisions and the disclosures in the financial statements are appropriate.

5.3. Valuation of defined benefit pension scheme

Key audit matter	Employees of the Group are eligible to join the defined benefit scheme of UNISON, which is a

description	multi-employer scheme. There are key actuarial assumptions that are applied by management in estimating the pension deficit to be recognised in the financial statements, particularly in the allocation of the Group's share of the scheme assets and liabilities. These are set out in the accounting policy for retirement benefit costs in note 2 to the financial statements. UIA assumes approximately 5.1% of the total UNISON scheme assets and liabilities. We understand that this allocation includes UNISON Direct, which is under negotiation. A small change in this allocation could also lead to a material change in UIA's share of the net pension deficit. The gross liability balance is £42.5m (2018: £37.1m). The net deficit at 31 December 2019 was £10.3m (2018: £8.5m) as set out in note 30 to the financial statements. Note 3 to the financial statements highlights the critical accounting judgements and key sources of estimation uncertainty, whilst the strategic report highlights the principal risks and uncertainties facing the society where this matter is also discussed.
How the scope of our audit responded to the key audit matter	To address this key audit matter, we: • obtained an understanding of the relevant controls around the pension review process; • tested the accuracy and completeness of employee data provided to the scheme actuary; • tested the assumptions used to calculate the society's share of the pension scheme assets and liabilities; • reviewed the internal control reports issued by Unison and scheme asset managers; • assessed whether UNISON Direct share represents a liability for the society; and • tested the valuation of the society's share of the pension scheme assets against third party confirmations and price reports.
Key observations	Based on the audit procedures performed, we concluded that the valuation of defined benefit pension scheme in the financial statements are appropriate

5.4. Revenue recognition

Key audit matter description	Premium income is recognised over the life of the respective policy on an accrual basis, with an unearned premium provision representing the portion of premiums relating to the unexpired coverage of the policy in force as at the yearend date (calculated predominantly a daily basis or 24ths basis). This key audit matter relates to the risk that incorrect earnings patterns are applied to premiums under FRS 103 (for the general insurance business), leading to a potential misstatement of the split between earned and unearned premiums. This is considered a potential fraud risk. Management judgement is required to apportion revenue between the amounts earned and unearned during the year. Net earned premiums were £18.8m in 2019 (2018: £21.6m) as set out in note 5 to the financial statements. The unearned premiums as at 31 December 2019 were £10m (2018: £12.1m) as set out in note 22 to the financial statements. The accounting policies applied are set out in note 2 in the financial statements.
How the scope of our audit responded to the key audit matter	• To address this key audit matter, we: • obtained an understanding of the relevant controls around the revenue recognition process; • tested the completeness and accuracy of data used to calculate the unearned premium reserve; • analysed seasonal variation in reported claims to assess whether premiums are being earned in proportion to the risk to which the society is exposed; • reviewed the earnings pattern for the financial year and compared that with prior years for consistency; and • performed a recalculation of the unearned premium reserve to assess whether earned premium had been recognised in the appropriate period.
Key observations	Based on the audit procedures performed, we concluded that the earning patterns applied by management and the resultant unearned premium reserves were reasonable.

Independent Auditor's Report to the Members of UIA (Insurance) Limited

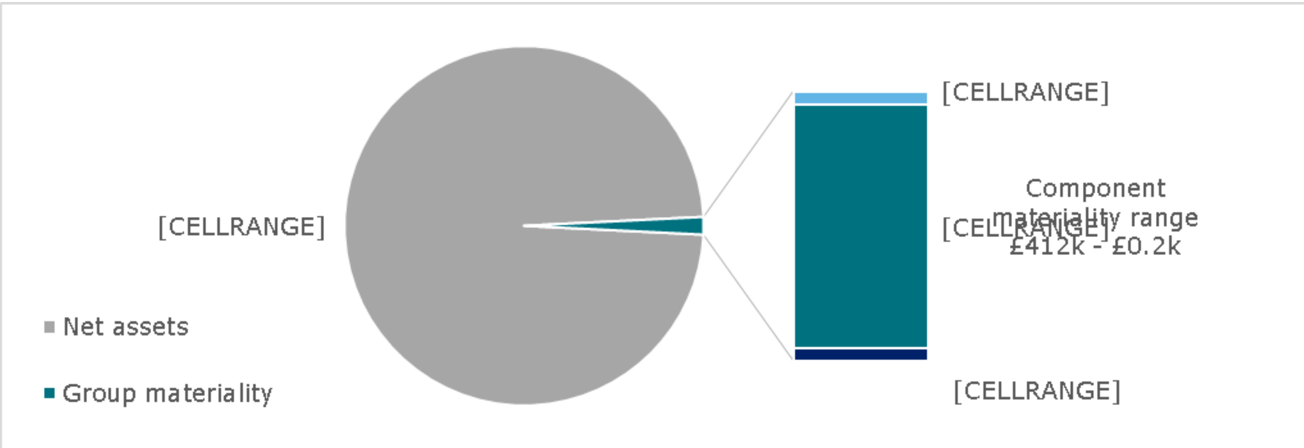
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Materiality	£414k (2018: £324k)	£412k (2018: £321k)
Basis for determining materiality	1.5% of net assets (2018: 1.5% of net earned premium)	Society materiality equates to 1.5% of net assets (2018: 1.5% net earned premium), which is capped at 99.5% of group materiality.
Rationale for the benchmark applied	The net assets figure is considered an appropriate basis as it represents the residual interest that can be ascribed to members after policyholder liabilities have been accounted for; we consider that this is the most appropriate measure for the size of the business and that it provides a stable measure year on year. We have changed the benchmark for our materiality calculation to align with standard market practice for the audit of mutual societies based on information published in publically available audit reports.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%).

In determining performance materiality we considered our risk assessment, including our assessment of the group's overall control environment and our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20.7k (2018: £16.2k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report to the Members of UIA (Insurance) Limited

7. An overview of the scope of our audit

7.1. Scoping

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement for all entities in the group, which are all in one geographic location, was performed directly by the group audit engagement team.

In the current period, we have performed a group risk assessment and scoping of component balances to determine the audit approach for the group. Our audit scoping provides full scope audit coverage of 100% (2018: 100%) of net earned premium and 97% (2018:97%) of net assets. We carried out analytical procedures to confirm our conclusion that there were no risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. In the prior year, each component was subject to a full scope audit executed at levels of materiality applicable to each individual entity which were lower than group materiality. The component materiality used for the full scope audits ranged from £0.2k to £412k (2018:£0.2k to £321k).

We also tested the consolidation process at group level.

7.2. Our consideration of the control environment

We have obtained an understanding of key IT systems relevant to the audit, this included the ICE claims system used in the claims administration and reserving process applicable to UIA (Insurance) Limited component. We have obtained an understanding of the General IT Controls related to the in-scope applications. We have not planned to rely on the IT controls associated with these systems in line with our overall audit strategy and as such, we have not tested GITCs and IT controls related to the account balances and classes of transactions.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 financial statements 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the society or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of UIA (Insurance) Limited

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 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 economic decisions of users taken on the basis of these financial statements.
Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.
A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including valuations, pensions, IT, actuarial and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the valuation of technical provisions, the valuation of defined benefit pension scheme and revenue recognition due to the estimates and judgements exercised by Management. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.
We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Co-operative and Community Benefit Societies Act, pensions legislation and tax legislation.
In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included compliance with terms of the group's regulatory solvency requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of technical provisions, valuation of defined benefit pension scheme and revenue recognition as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.
We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's Report to the Members of UIA (Insurance) Limited

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Co-operative and Community Benefit Societies Act 2014

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the society and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in respect of these matters.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the directors of society on 13 August 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2013 to 31 December 2019.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the society's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adam Addis (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

11 May 2020

Consolidated Statement of Profit and Loss Account of the Society and its subsidiaries
for the year ended 31 December 2019
Technical account – General Business

	Notes	2019 £'000	2018 £'000
Earned premiums net of reinsurance			
Gross earned premium	5(a)	**22,372**	25,157
Reinsurance premium ceded	5(a)	**(3,542)**	(3,575)
	6	**18,830**	21,582
Allocated investment return transferred from the non-technical account		**111**	170
Other technical income		**882**	851
Total technical income		**19,823**	22,603
Claims incurred net of reinsurance			
Gross insurance claims and claims settlement expenses	5(b)	**(13,234)**	(19,214)
Insurance claims and claims settlement expenses recoverable from reinsurers	5(b)	**1,430**	1,567
		(11,804)	(17,647)
Changes in other technical provisions net of reinsurance	23	**745**	229
Net operating expenses	7	**(11,509)**	(12,722)
Total technical charges		**(22,568)**	(30,140)
Balance on technical account for general business		**(2,745)**	(7,537)

The notes on pages 46 to 77 form part of these financial statements.

Consolidated Profit and Loss Account of the Society and its subsidiaries (continued)
for the year ended 31 December 2019
Non-technical account

	Notes	2019 £'000	2018 £'000
Balance on the general business technical account		**(2,745)**	(7,537)
Investment income	10	**1,722**	1,161
Unrealised gains on investments		**632**	**-**
Net investment expenses	10	**(23)**	(7)
Unrealised losses on investments		**-**	**(1,353)**
Allocated investment return transferred to the technical account Basis of calculation to be included in notes to accounts		**(111)**	(170)
Other income	11	**27**	53
Interest charge on defined benefit pension net liability	24	**(234)**	(233)
Loss on ordinary activities before taxation		**(732)**	(8,086)
Tax (charge) / credit on loss on ordinary activities	12	**(449)**	21
Loss for the financial year		**(1,181)**	(8,065)

All of the income and expenditure relates to continuing operations and is attributable to the members.

The notes on pages 46 to 77 form part of these financial statements.

UIA (Insurance) Limited

Consolidated Statement of Comprehensive Income of the Society and its subsidiaries
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Retained deficit for the year		**(1,181)**	(8,065)
Re-measurement of net defined benefit pension liability	30	**(1,739)**	2,278
Total comprehensive expense for the year		**(2,920)**	(5,787)

All results are derived from continuing operations and are attributable to the members.

The notes on pages 46 to 77 form part of these financial statements.

UIA (Insurance) Limited

Consolidated Balance Sheet of the Society and its subsidiaries
as at 31 December 2019

	Notes	Group	
		2019	2018
		£'000	£'000
Assets			
Intangible assets	14	**2,840**	2,450
Other financial investments	15	**46,108**	50,933
		46,108	50,933
Reinsurers' share of technical provisions			
Unearned premiums	17(a)	**668**	731
Outstanding claims	17(b)	**1,875**	1,698
		2,543	2,429
Debtors			
Arising out of direct insurance operations		**8,952**	10,650
Other debtors	18	**564**	505
		9,516	11,155
Other assets			
Tangible assets	19	**57**	83
Cash at bank and in hand		**1,921**	4,269
		1,978	4,352
Prepayments and accrued income			
Accrued interest and rent		**-**	32
Deferred acquisition costs	20	**463**	668
Other prepayments and accrued income		**718**	1,157
		1,181	1,857
Total assets		**64,166**	73,176

The notes on pages 46 to 77 form part of these financial statements.

UIA (Insurance) Limited

Consolidated Balance Sheet of the Society and its subsidiaries (continued)
as at 31 December 2019

	Notes	Group	
		2019	**2018**
		£'000	£'000
Liabilities			
Capital and reserves			
Share capital	21	**1**	1
Profit and loss account		**27,568**	30,488
Total equity		**27,569**	30,489
Technical provisions			
Gross unearned premiums	22a	**10,024**	12,085
Gross outstanding claims	22b	**10,777**	13,862
Unearned commission	22c	**402**	412
Other technical provisions	23	**-**	745
		21,203	27,104
Provisions for other risks			
Provisions for pensions and similar obligations	24	**10,303**	8,544
Other provisions		**150**	150
		10,453	8,694
Creditors			
Arising out of direct insurance operations		**2,256**	3,510
Arising out of reinsurance operations		**1,302**	1,492
Other creditors including taxation and social security	25	**1,038**	1,291
		4,596	6,293
Accruals and deferred income		**345**	596
Total equity, reserves and liabilities		**64,166**	73,176

Approved by the Board of Directors and authorised for issue on 11 May 2020 and signed on their behalf by:

Peter Dodd   J Craven   J. Nickson

Chair and Director	Director	Director and Society Secretary
Peter Dodd	Jon Craven	John Nickson

The notes on pages 46 to 77 form part of these financial statement

UIA (Insurance) Limited

Balance Sheet of the Society
as at 31 December 2019

	Notes	The Society	
		2019	2018
		£'000	£'000
Assets			
Intangible assets	14	**2,840**	2,450
Investments			
Investment in group undertakings	16	**264**	264
Other financial investments	15	**46,108**	50,933
		46,372	51,197
Reinsurers' share of technical provisions			
Unearned premiums	17(a)	**668**	731
Outstanding claims	17(b)	**1,875**	1,698
		2,543	2,429
Debtors			
Arising out of direct insurance operations		**8,952**	10,650
Other debtors	18	**439**	910
		9,391	11,560
Other assets			
Tangible assets	19	**57**	83
Cash at bank and in hand		**1,589**	3,979
		1,646	4,062
Prepayments and accrued income			
Accrued interest and rent		**-**	32
Deferred acquisition costs	20	**463**	668
Other prepayments and accrued income		**712**	645
		1,175	1,345
Total assets		**63,967**	73,043

The notes on pages 46 to 77 form part of these financial statements.

Balance Sheet of the Society (continued)
as at 31 December 2019

	Notes	The Society	
		2019	**2018**
		£'000	£'000
Liabilities			
Capital and reserves			
Share capital	21	**1**	1
Profit and loss account		**27,497**	30,339
Total equity		**27,498**	30,340
Technical provisions			
Gross unearned premiums	22a	**10,024**	12,085
Gross outstanding claims	22b	**10,777**	13,862
Unearned commission	22c	**402**	412
Other technical provisions	23	**-**	745
		21,203	27,104
Provision for other risks			
Provisions for pensions and similar obligations	24	**10,303**	8,544
Other provisions		**150**	150
		10,453	8,694
Creditors			
Arising out of direct insurance operations		**2,256**	3,510
Arising out of reinsurance operations		**1,302**	1,492
Other creditors including taxation and social security	25	**910**	1,307
		4,468	6,309
Accruals and deferred income		**345**	596
Total equity, reserves and liabilities		**63,967**	73,043

Approved by the Board of Directors and authorised for issue on 11 May 2020 signed on their behalf by:

Peter Dodd | J Craven | J. Nickson

Chair and Director
Peter Dodd

Director
Jon Craven

Director and Society Secretary
John Nickson

The notes on pages 46 to 77 form part of these financial statements.

UIA (Insurance) Limited

Statements of Changes in Equity
for the year ended 31 December 2019

Consolidated Statement of Changes in Equity of the Society and its subsidiaries

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2018	1	36,275	36,276
Deficit for the financial year	-	(8,065)	(8,065)
Re-measurement of net defined benefit pension scheme liability	-	2,278	2,278
At 31 December 2018	**1**	**30,488**	**30,489**
Deficit for the financial year	**-**	**(1,181)**	**(1,181)**
Re-measurement of net defined benefit pension scheme liability	**-**	**(1,739)**	**(1,739)**
At 31 December 2019	**1**	**27,568**	**27,569**

Statement of Changes in Equity of the Society

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2018	1	35,671	35,672
Deficit for the financial year	-	(7,610)	(7,610)
Re-measurement of net defined benefit pension scheme liability	-	2,278	2,278
At 31 December 2018	**1**	**30,339**	**30,340**
Deficit for the financial year	**-**	**(1,103)**	**(1,103)**
Re-measurement of net defined benefit pension scheme liability	**-**	**(1,739)**	**(1,739)**
At 31 December 2019	**1**	**27,497**	**27,498**

The notes on pages 46 to 77 form part of these financial statements.

Consolidated Statement of Cash Flows of the Society and its subsidiaries

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Cash generated from operating activities			
Net cash flow used by operating activities before investment of insurance assets	26	**(8,491)**	(5,703)
Cash generated from investment of insurance assets	26	**6,215**	3,582
Net cash (used in) operating activities		**(2,276)**	(2,121)
Cash flow from investing activities			
Purchase of intangible and tangible assets		**(1,013)**	(1,705)
Net cash used in investing activities		**(1,013)**	(1,705)
Net cash decrease in cash at bank and in hand		**(3,289)**	(3,826)
Cash and cash equivalents at beginning of year		**13,282**	17,108
Cash and cash equivalents at end of year		**9,993**	13,282
Cash at bank and in hand		**1,921**	4,269
Short-term deposits presented within other financial instruments		**8,072**	9,013
Cash and cash equivalents		**9,993**	13,282

The notes on pages 46 to 77 form part of these financial statements.

1. General information

UIA (Insurance) Limited is a Registered Society ("the Society") under the Co-operative and Community Benefit Societies Act 2014 and is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority to carry out non-life insurance business. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the strategic report on pages 4 to 11.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the valuation of investments at fair value or at amortised cost, and in accordance with Financial Reporting Standards 102 & 103 (FRS 102 & 103) issued by the Financial Reporting Council. The Society is subject to the requirements of the Companies Act 2006 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

In accordance with FRS 103, the Group has applied existing accounting policies for insurance contracts.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the Strategic Report. The Strategic Report also describes the financial position of the Group, its cash flows and liquidity position, the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposure to credit and liquidity risk.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements of accounting in preparing the annual financial statements. Please refer to page 19 for further details of this.

2.2 Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Society and its subsidiary Companies made up to 31 December of each year. The acquisition method of accounting is adopted with assets and liabilities valued at fair values at the date of acquisition.

Results of subsidiaries acquired or disposed of are included in the consolidated profit and loss account from the effective date of acquisition or to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

2.3 Parent Society disclosure exemptions

UIA (Insurance) Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

2.4 Insurance classification

The Group's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations due under it are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if, and only if, an insured event could cause an insurer to make significant additional benefits or incur losses in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

2.5 Revenue recognition

Premiums written
Insurance and reinsurance premiums written comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium provision, which represents the proportion of premiums incepted in prior periods and that relate to periods of insurance cover after the balance sheet date.

Unearned premiums are calculated over the period of exposure under the policy, on a daily basis, 24ths basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

Other technical income
Other technical income comprises of commissions receivable for the whole period of cover, adjusted for an unearned commission provision. Unearned commissions are calculated over the period of the policy to which it relates, on a daily basis or 24ths basis.

Investment return
Investment return consists of dividends, interest, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value assets. Investment return is allocated between the technical and non-technical accounts based on the return on assets and liabilities attributable to insurance and non-insurance activity.

Interest income
Interest income is recognised by applying the effective interest rate method, except for short-term receivables when recognition of interest would be immaterial.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Realised gains and losses
The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Unrealised gains and losses
Unrealised gains or losses represent the difference between the carrying value at the financial year-end and the carrying value at the previous financial year-end or purchase value during the financial year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the financial year.

2.6 Taxation

Current tax including United Kingdom Corporation Tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The taxation expense represents the sum of the tax currently payable and deferred tax.

United Kingdom taxation charged in the non-technical account is based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in the future have occurred at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded are more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2.6 Taxation (continued)

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or that asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

2.7 Intangible assets

Software expenditure
An internally-generated intangible asset arising from the Group's software development is recognised only if all the following conditions are met:

- an asset is created that can be identified (such as software);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Assets resulting from the purchase of software are initially measured at cost. Software is amortised on a straight-line basis over its estimated useful life, which is typically three to five financial years. Where no internally-generated asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

The impairment policy is set out in note 2.10 below.

2.8 Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Computer equipment	50%
Plant and machinery	20% - 50%
Fixtures and fittings	20% - 50%

2.9 Retirement benefit costs

Employees are eligible to join the defined benefit scheme of UNISON, which is a multi-employer scheme. The disclosures required to be made under the provisions of FRS 102 are made in note 30. Employees of both UIA (Insurance) Limited and UIA (Call Centres) Limited are eligible to participate in the scheme.

The Directors consider the scheme assets and liabilities attach solely to UIA (Insurance) Limited as the sponsoring employer and as such the scheme is accounted for as a defined benefit scheme within the parent Society's accounts and at group level.

The current and past service costs are included within operating expenditure. Net interest costs are included within investment income. Re-measurement of the net defined benefit liability is accounted for in the statement of comprehensive income. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained every three years and are updated at each balance sheet date. The resulting defined benefit scheme liability is shown within note 24.

2.10 Impairment of assets

Assets, other than those measured at fair value, are assessed for indicator of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the statement of profit and loss account as described below.

Non-financial assets
An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than he carrying value if no impairment had been recognised.

Financial assets
For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for the decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value if no impairment had been recognised.

2.11 Financial assets and liabilities

The Society's investments comprise debt and equity instruments, cash and cash equivalents, receivables and investments in subsidiaries.

Recognition
Financial assets and liabilities are recognised when the Society enters into the contractual provisions of the instrument.

Initial measurement
All financial assets and liabilities are initially recognised at the transaction price (including transactional costs), with the exception of any financial assets and liabilities that are measured at fair value through the profit and loss account (which is normally the transaction price less the transaction cost), or if the arrangement constitutes a financing transaction. If the arrangement constitutes a financing transaction then the financial asset or liability is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Fair value measurement
Where available, fair value is taken as a quoted price of an identical asset in an active market. If a quoted price is not available, the price of a recent transaction for an identical asset is used as long as there has not been a change in economic circumstances. If there is no active market and no recent transactions and an identical asset on its own is not a good estimate of fair value, an estimate of the fair value is made using another valuation technique.

Fair value estimate
The fair value measurement used to value financial assets and financial liabilities held at fair value is categorised into a fair value hierarchy as follows:

FRS102 section 11.27 establishes a fair value hierarchy that prioritises the inputs to valuation methods used to measure fair value. The hierarchy is as follows:

Level 1: Fair value is measured using quoted prices of an identical asset in an active market. An active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions at an arm's length basis;

2.11 Financial assets and liabilities (continued)

Level 2: When quoted shares are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted; and

Level 3: If the market of the asset is not active and recent transactions of an identical asset on their own are not good estimates of fair value, the fair value is estimated using a valuation technique.

All our financial assets are held at Level 1 and there have been no transfers in or out of this level during the current year.

Subsequent measurement
Non-current debt instruments that are directly held which meet the following criteria set out under FRS 102 section 11.9 are measured at amortised cost using the effective interest method:

a) Returns to the holder are a fixed amount, or a fixed rate of return over the life of the instrument, or a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate, or some combination of such fixed and variable rates as long as both are positive;
b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods;
c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put back to the issuer before maturity are not contingent on future events other than to protect the holder against credit deterioration of the issuer, or a change in control of the issuer, or the holder or issuer, against changes in relevant taxation or law; and
d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provision described in (c).

Debt instruments that are payable and receivable within one year are measured at the undiscounted amount of the cash or other consideration expected to be paid or received net of impairment. Other debt instruments not meeting these conditions are measured at fair value through the profit and loss account.

Shares and other variable securities in unit trusts are measured at fair value through profit and loss.

Commitments to make and receive a loan that meet the conditions above are measured at cost less impairment.

Investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are measured at their fair value with changes in fair value being recognised in the statement of profit and loss when the shares are publicly traded or if their fair value can be measured reliably. All other such investments are measured at cost less impairment.

Impairment of financial instruments measured at amortised cost or cost
For a directly held instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

For an instrument measured at cost less impairment the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the entity shall reverse the previously recognised impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. The Group recognises the amount of the reversal in the profit and loss account immediately.

2.11 Financial assets and liabilities (continued)

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities three months or less and bank overdrafts.

Investment in subsidiaries
In the Society balance sheet, investments in subsidiaries are measured at cost less impairment.

2.12 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease.

Where the Society has a legal obligation, a dilapidations provision is created over the period of a lease. These provisions are a best estimate of the cost required to return leased properties to their original condition upon termination of the lease.'

2.13 Insurance contracts

Claims
Claims consist of claims paid to policyholders, changes in the valuation of the liabilities arising on policyholder contracts and internal and external claims handling expenses, net of salvage and subrogation recoveries.

Acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the sale of insurance contracts. Deferred acquisition costs are those proportions of costs which relate to periods after the balance sheet date. The deferred acquisition costs are calculated on the same basis as the unearned premium.

Provision for outstanding claims
Provision for the liabilities of non-life insurance contracts is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported (IBNR) at that date. The provisions are not discounted. Included in the provision is an estimate of the internal and external costs of the handling of the outstanding claims. Material salvage and other recoveries including reinsurance recoveries and recoveries from third parties where liability for loss exists are presented as assets.

Where significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business and subsidence claims, the ultimate cost of

which may vary from the original assessment. Adjustments to the amounts of claims provisions established in prior financial years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.

Unexpired risk provision
A provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated based on information available at the balance sheet date.

Liability adequacy
At each reporting date the Group performs a liability adequacy test on its insurance liabilities less related intangible assets to ensure that the carrying value is adequate, using current estimates of cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense in the profit and loss account initially by writing off the intangible assets and subsequently by recognising an additional liability for claims provisions or recognising a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for business classes which are managed together.

2.14 Reinsurance

The Society enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outwards reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards insurance business being reinsured.

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when due.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contract and in accordance with the terms

2.14 Reinsurance (continued)

of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The impairment loss is recognised as an expense in the profit and loss account. The asset is impaired if objective evidence is available to suggest that it is probable that the Group will not be able to collect the amounts due from reinsurers.

2.15 Insurance receivables and payables

Receivables and payables arising under insurance contracts are recognised when due and measured at cost. No discounting is applied due to their short-term nature.

3. Critical accounting judgements and key sources of estimation uncertainty including subsequent events

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects that period only or in the period of the revision and future periods if the revision affects both current and future periods.

Technical provisions
Reserving for outstanding claims, claims incurred but not reported, and whether any management risk margins should be applied is a critical judgement and is described in note 2.13 above.

Other technical provisions including unexpired risk provision
A reserve is required where part of the Society's book of business is assessed to be loss making as its unearned premium reserve earns through to the following years accounting periods. This assessment takes into account loss ratio and expenses and is highly subjective. The assessment of this provision is judgemental with regard to whether a reserve is required and on what segment of business written.

Key sources of estimation uncertainty

The key source of estimation uncertainty is described below:

Pensions
The employer pension scheme is valued on actuarial basis. The Society is a small part of a much larger scheme and therefore assets and liabilities are valued in total and an assessment is made as to the Society's share of those assets and liabilities. The estimated proportion allocated to the Society is described in note 30.

In non-valuation years this apportionment is used to determine the pension scheme surplus or deficit.

Technical provisions
Reserving for outstanding claims, claims incurred but not reported, provision for future claims handling costs and the level of any management risk margin are areas of estimation uncertainty and is described in note 2.13 above.

Subsequent events

Since 31 December 2019 the outbreak of COVID-19 has resulted in governments worldwide introducing emergency measures to stop the spread of the virus. These measures including lockdowns in many territories have caused material disruption to businesses leading to economic slowdown. Global investment markets have experienced significant falls since 31 December 2019 and still exhibit a high level of volatility. Governments and central banks have reacted with significant measures designed to support economies and investment markets.

As the duration and impact of Covid-19 is unknown it is not possible to reliably estimate its impact on the Society's financial results in future periods, including the impact of decisions on risk mitigation strategies and protections, which will be considered as they expire or come up for renewal over the next 12 months. However the Society classifies the event as a non-adjusting subsequent event.

There are no other post balance sheet subsequent events.

4. Management of insurance and financial risk

The Society monitors and manages the risks relating to it through the Risk Committee and Board. A quarterly management information pack covering matters such as operational risks, complaints data, compliance monitoring plans and an update on regulatory matters and developments is presented to the Risk Committee and Board. Additionally, the Society maintains risk registers which are reviewed by the Risk Committee, and other reports are produced on an ad hoc basis as and when necessary for the Risk Committee and Board.

The Society considers its largest risk exposures to be:

- Market risk – due to exposure to spread risk from holding long-dated corporate bonds, and to equity risk from equities in the pension fund;
- Insurance risk – due to the uncertainty surrounding the timing, frequency and severity of household claims with more than half of which relates to the potential for catastrophe events; and
- Pension risk – due to the uncertainty surrounding the obligations to our share of the UNISON Defined Benefit Pension Scheme.

4.1. Insurance risk

The Society accepts insurance risk through its insurance contracts. The Society is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Society manages its risk via its underwriting and reinsurance strategy. Pricing is based on assumptions made by looking at trends and past experiences. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is used to reduce the effect of potential loss from individual large losses or events.

Capital management
The following table is a summary of our capital position as reported in our Solvency and Financial Condition Report

	At 31 December	
	Unaudited 2019 £m	**Unaudited 2018 £m**
Market risk	**7.3**	9.9
Counterparty default risk	**1.5**	2.1
Non -life underwriting risk	**8.6**	9.8
Operational risk	**0.7**	0.9
Loss absorbing capacity of deferred tax	**(0.2)**	(0.3)
Diversification credit	**(4.0)**	(5.2)
Total solvency capital requirement (SCR)	**13.9**	17.2
Total own funds	**27**	33.4
Total surplus	**13.1**	16.2
SCR coverage	**194%**	194%

4. Management of insurance and financial risk (continued)

4.1. Insurance risk (continued)

Assumptions and sensitivities
The risks associated with the household insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. We use several statistical and actuarial techniques on past claims development experience for estimating its liabilities, including chain ladder methods applied to:
- incurred claims amounts;
- paid data amounts;
- reported claim counts and average severities; and
- considering various categorisations of claims data.

We consider that the liability for claims recognised in the balance sheet is adequate but actual experience will differ from the expected outcome. In order to mitigate this risk, we hold a prudential margin of reserves above the Best Estimate.

We have carried out some sensitivity tests on the actual results for the year ended 31 December 2019 and these are set out below.

	2019	**2018**
	£'000	£'000
Balance on technical account for general business	**(2,745)**	(7,881)
5% Increase in loss ratio (79% - 84%) (2018: 79% - 84%)	**(3,736)**	(9,226)
Weather event in UK – industry loss £250m	**(3,495)**	(8,861)
5% increase in expenses	**(3,320)**	(8,748)

Claims development tables
The following tables show the development of our claims excluding non-specific prudential, management margins and claims handling expense reserves over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than ten years

Analysis of claims development – gross	**2019** £'000	**2018** £'000	**2017** £'000	**2016** £'000	**2015** £'000	**2014** £'000	**2013** £'000	**Total** £'000
Estimates of ultimate claims								
End of accident year	11,764	16,581	14,474	10,984	10,121	9,471	10,633	
One year later		16,652	13,384	10,151	9,718	8,854	9,502	
Two years later			13,413	9,539	9,449	8,759	9,324	
Three years later				9,464	9,094	8,639	9,239	
Four years later					9,217	8,310	9,681	
Five years later						8,334	8,377	
Six years later							8,192	
Current estimate of ultimate claims	11,764	16,652	13,413	9,464	9,217	8,334	8,192	
Cumulative payments to date	(6,819)	(14,816)	(12,787)	(8,961)	(8,952)	(8,172)	(7,893)	
In balance sheet	4,945	1,836	626	503	265	162	299	8,636
Liability in respect of earlier years								344
Liability in balance sheet								8,980

4. Management of insurance and financial risk (continued)

4.1. Insurance risk (continued)

Analysis of claims development – net	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000	Total £'000
Estimates of ultimate claims								
End of accident year	11,237	16,105	13,882	10,814	9,497	9,027	9,560	
One year later		16,187	13,269	9,953	9,037	8,593	8,384	
Two years later			13,383	9,474	8,778	8,481	8,064	
Three years later				9,476	9,102	8,365	8,003	
Four years later					9,156	8,276	8,287	
Five years later						8,268	8,333	
Six years later							8,313	
Current estimate of ultimate claims	11,237	16,187	13,383	9,476	9,156	8,268	8,313	
Cumulative payments to date	(6,677)	(14,852)	(12,912)	(9,113)	(8,958)	(8,189)	(8,072)	
In balance sheet	4,560	1,335	471	363	198	79	241	7,247
Liability in respect of earlier years								37
Liability in balance sheet								7,284

4.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as interest rates. Market risk arises due to fluctuations in both the value of the assets held and the value of liabilities. Risk is managed in line with the Society's risk appetite. The Society has established policies and procedures in order to manage market risk and methods to measure it.

4.2.1 Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Society is exposed to interest rate risk from movements on financial investments that have a fixed interest rate. As the amount of financial investments exposed to this risk is £3.1m (2018: £4.1m) the Board does not consider this to be a significant risk to the Society.

4.2.2 Equity risk

At the year-end we held £0.3m (2018: £0.3m) in equities or equity-based investments, being the Society's investment in subsidiaries. Under Solvency II, which is measured at Society not Group level, we are required to hold capital amounting to £0.1m (before portfolio diversification benefits) in respect of these assets in recognition of a potential fall in value.

4.3 Credit risk

The Society has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts owing in full when due. Areas where the Society is exposed to credit risk are:

- Reinsurers' share of insurance liability and amounts due from reinsurers in respect of claims already made;
- The risk of default in relation to corporate bond holdings;
- Amounts due from policyholders; and
- Deposits held with banks.

4. Management of insurance and financial risk (continued)

4.3 Credit risk (continued)

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 or issued in respect of any financial assets or liabilities.

The Society monitors the credit risk in relation to its investment portfolio and reinsurance programme by monitoring external credit ratings for the investment and reinsurance assets held. Our potential exposure to any issues arising from Brexit are disclosed on Page 4 in the Strategic Report.

Reinsurance assets are reinsurers' share of outstanding claims and IBNR and reinsurance receivables. All reinsurers on the household programme are contracted to have a credit rating of A- or better. These are allocated below:

2019	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC ***	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	12,415	5,253	11,875	16,313	62	-	86	46,004
Other investments	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	104	-	-	1,589	1,693
Reinsurance receivables	-	-	684	-	-	-	1,192	1,876
	12,415	5,253	12,559	16,417	62	-	2,867	49,573

* includes unrated

2018 ** (see below)	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC ***	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	9,213	4,857	12,265	17,250	940	46	67	44,638
Other investments	-	-	-	-	-	-	-	-
Deposits	-	-	6,042	-	-	-	-	6,042
Cash and cash equivalents	-	-	-	296	-	-	4,269	4,565
Reinsurance receivables	-	-	447	-	-	-	1,251	1,698
	9,213	4,857	18,754	17,546	940	46	5,587	56,943

* includes unrated

Note ** The 2017 disclosure has been restated to include subsidiary assets, fully reinsured assets and a correction of a security classification previously classified as "A" which is unrated. Additionally, the 2017 analysis used only one rating agency whereas 2018 uses three rating agencies which has resulted in a number of securities previously disclosed as "non-rated" being allocated an appropriate credit rating.

4.4 Liquidity risk

Liquidity risk is the risk that the Society cannot meet its obligations associated with its financial liabilities as they fall due. The Society has in place a liquidity management framework for the management of the Society's requirements.

The Society is exposed to liquidity risk from client insurance contacts. With regard to a catastrophic event there is liquidity risk arising from the timing difference between claim payment and recoveries from reinsurers. All claims are considered to be payable within one year from the balance sheet date, albeit we recognise some claims may in practice take longer to settle.

The Society has sufficient funds to cover insurance claims and in practice most of the Society's assets are marketable securities which can be converted into cash when required.

4. Management of insurance and financial risk (continued)

4.5 Pension risk

As disclosed in note 30, the Society is a participating employer within the UNISON Staff Pension Scheme. This is a multi-employer Defined Benefit pension scheme. As such our financial commitment to the scheme can vary significantly over time as we are dependent on a significant range of variables such as investment performance, longevity, interest rates, inflation and retirement ages.

However, the highest impact single risk facing the Society relates to the covenant of the other sponsoring employer within the scheme. In the event of the insolvency of the other sponsor, liability for the entire deficit would fall on the Society. This is known as the "last man standing" commitment.

5. Underwriting Activities

5(a) Net earned premium

	2019 £'000	2018 £'000
Gross earned premium		
Gross written premium	**20,311**	24,549
Change in unearned premium	**2,061**	608
Gross earned premium	**22,372**	25,157
Reinsurance premium ceded		
Reinsurance premium payable	**(3,485)**	(2,037)
Change in reinsurers share of unearned premium	**(57)**	(1,538)
Reinsurance premium ceded	**(3,542)**	(3,575)
Net earned premium	**18,830**	21,582

5(b) Net insurance claims and claims settlement expenses

	2019 £'000	2018 £'000
Insurance claims and claims settlement expenses		
Gross insurance claims and claims settlement expenses paid	**(16,516)**	(17,961)
Gross change in provision for claims	**3,282**	(1,253)
Gross incurred insurance claims and claims settlement expenses	**(13,234)**	(19,214)
Insurance claims and claims settlement expenses recoverable from reinsurers		
Gross claims and claims settlement expenses paid recoverable from reinsurers	**1,191**	2,014
Gross change in provision for claims and claims settlement expenses recoverable from reinsurers	**239**	(447)
Gross claims and claims settlement expenses recoverable from reinsurers	**1,430**	1,567
Net incurred claims and claims settlement expenses	**(11,804)**	(17,647)

6. Segmental analysis

Technical account 2019	Household	Home Emergency	Legal	Legal Expenses	Total
	£'000	£'000	£'000	£'000	£'000
Net earned premium					
Gross written premium	**18,512**	**641**	**607**	**551**	**20,311**
Change in gross unearned premium	**2,004**	**55**	**2**	**-**	**2,061**
Gross earned premium	**20,516**	**696**	**609**	**551**	**22,372**
Reinsurance premium ceded	**(1,686)**	**(696)**	**(609)**	**(551)**	**(3,542)**
Net earned premium	**18,830**	**-**	**-**	**-**	**18,830**
Allocated investment return transferred from the non-technical account	**111**	**-**	**-**	**-**	**111**
Overriding commission	**-**	**368**	**385**	**129**	**882**
Total technical income	**18,941**	**368**	**385**	**129**	**19,823**
Net claims incurred					
Gross insurance claims and claims settlement expenses	**(12,219)**	**(160)**	**(220)**	**(635)**	**(13,234)**
Insurance claims and claims settlement expenses recoverable from reinsurers	**415**	**160**	**220**	**635**	**1,430**
Net claims incurred	**(11,804)**	**-**	**-**	**-**	**(11,804)**
Change in other technical provisions	**745**	**-**	**-**	**-**	**745**
Net operating expenses	**(11,322)**	**-**	**-**	**(187)**	**(11,509)**
Total technical charges	**(22,381)**	**-**	**-**	**(187)**	**(22,568)**
Balance on technical account	**(3,440)**	**368**	**385**	**(58)**	**(2,745)**

All insurance underwritten by the Society is in respect of risks located in the United Kingdom.

Notes to the Financial Statements (continued)
for the year ended 31 December 2019

6. Segmental analysis (continued)

Technical account 2018	Household	Home Emergency	Legal	Legal Expenses	Total
	£'000	£'000	£'000	£'000	£'000
Net earned premium					
Gross written premium	22,691	787	668	403	24,549
Change in gross unearned premium	584	15	9	-	608
Gross earned premium	23,275	802	677	403	25,157
Reinsurance premium ceded	(1,693)	(802)	(677)	(403)	(3,575)
Net earned premium	21,582	-	-	-	21,582
Allocated investment return transferred from the non-technical account	170	-	-	-	170
Overriding commission	-	396	428	27	851
Total technical income	21,752	396	428	27	22,603
Net claims incurred					
Gross insurance claims and claims settlement expenses	(17,908)	(282)	(182)	(842)	(19,214)
Insurance claims and claims settlement expenses recoverable from reinsurers	261	282	182	842	1,567
Net claims incurred	(17,647)	-	-	-	(17,647)
Change in other technical provisions	229	-	-	-	229
Net operating expenses	(12,722)	-	-	-	(12,722)
Total technical charges	(30,140)	-	-	-	(30,140)
Balance on technical account	(8,388)	396	428	27	(7,537)

All insurance underwritten by the Society is in respect of risks located in the United Kingdom.

Notes to the Financial Statements (continued)
for the year ended 31 December 2019

7. Expenses

(a) Net operating expenses	**2019** £'000	2018 £'000
Acquisition costs	**3,402**	3,670
Changes in deferred acquisition costs	**205**	404
Administrative expenses including amortisation	**7,902**	8,648
	11,509	12,722

(b) Auditor's remuneration		
Fees payable to the auditor for the audit of the annual accounts	**106**	79
Fees payable for the audit of subsidiary Companies pursuant to legislation	**10**	11
	116	90

(c) Operating lease payments		
Rental of buildings	**306**	306
Hire of plant and machinery	**72**	42
	378	348

8. Colleague information

The average monthly number of colleagues (including Executive Directors) employed by the Group during the year was as follows:

	2019 Number	2018 Number
Underwriting and claims	**40**	37
Administration and finance	**34**	30
Sales and marketing	**25**	25
Subsidiary activities	**59**	56
	158	148

Notes to the Financial Statements (continued)
for the year ended 31 December 2019

8. Colleague information (continued)

Colleague costs were as follows:

	2019 £'000	2018 £'000
Wages and salaries	**3,604**	3,272
Social security cost	**376**	330
Pension costs	**1,093**	928
	5,073	4,530

9. Directors' emoluments

The remuneration of the Executive Directors who served during the year is detailed below:

	2019 £'000	2018 £'000
Aggregate emoluments	**332**	274
Employers Pension Contribution	**35**	19
Total Directors' emoluments	**367**	293

Disclosures on Directors' remuneration, long-term incentive schemes, pension contributions and pension entitlements, including those of the highest paid Director, as required by the Companies Act 2006, are contained in the Directors' Remuneration report on page 25.

Notes to the Financial Statements (continued)
for the year ended 31 December 2019

10. Net investment return

	Investment income			Net investment expenses	Unrealised gains on investments	Unrealised losses on investments	Net investment result
	Net investment income	Amortised interest	Net realised gains / (losses)				
	2019	**2019**	**2019**	**2019**	**2019**	**2019**	**2019**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unit trusts	**1,114**	**-**	**507**		**622**	**-**	**2,243**
Term deposits	**28**	**-**			**-**	**-**	**28**
Cash and cash equivalents	**22**	**-**	**3**		**10**	**-**	**35**
Other investment income	**48**	**-**			**-**	**-**	**48**
Other investment expenses	**-**	**-**		**(23)**	**-**	**-**	**(23)**
	1,212	**-**	**510**	**(23)**	**632**	**-**	**2,331**
Investment income		**1,722**					

	2018	2018	2018	2018	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unit trusts	1,374	-	(385)	-	-	(1,351)	(362)
Term deposits	51	32	-	-	-	-	83
Cash and cash equivalents	16	-	(1)	-	-	(2)	13
Other investment income	74	-	-	-	-	-	74
Other investment expenses	-	-	-	(7)	-	-	(7)
	1,515	32	(386)	(7)	-	(1,353)	(199)
Investment income		1,161					

11. Net result of non-underwriting activities

The net results of the non-underwriting activities of the Society's trading subsidiaries are shown separately in the non-technical account. Revenue consists of commission receivable by UIA (Insurance Services) Limited and recharges of expenses incurred in the provision of call centre help lines to members of UNISON by UIA (Call Centres) Limited.

2019	UIA (Insurance Services) Ltd	UIA (Call Centres) Ltd	UIA Management Services Ltd Note *	Total
	£'000	£'000	£'000	£'000
Turnover	**197**	**2,306**	**-**	**2,503**
Administrative expenses	**(172)**	**(2,304)**	**-**	**(2,476)**
Retained profit for the year	**25**	**2**	**-**	**27**

2018	UIA (Insurance Services) Ltd	UIA (Call Centres) Ltd	UIA Management Services Ltd	Total
	£'000	£'000	£'000	£'000
Turnover	222	2,192	-	2,414
Administrative expenses	(169)	(2,192)	-	(2,361)
Retained profit for the year	53	-	-	53

Note *: UIA Management Services Limited traded during 2019 and is therefore included above for completeness.

12. Taxation on profit on ordinary activities

The Society, as a mutual, is not taxed on its transactions with members and only the Society's investment income is subject to corporation tax.

	2019 £'000	2018 £'000
(a) Analysis of the tax charge		
UK corporation tax:		
Current tax (see (b))	**448**	11
Adjustments in respect of previous periods	**-**	6
Total corporation tax	**448**	17
Changes in deferred tax balances (see (c))	**1**	(38)
Total current tax charge / (credit) for the year	**449**	(21)

(b) Factors affecting tax charge for the year

The tax credit for the year is lower than 19% (2018: lower than 19%) of taxable income for the year. The differences are explained below:

	2019 £'000	2018 £'000
Loss on ordinary activities before tax	**(732)**	(8,086)
Tax on ordinary activities at 19% (2018: 19%)	**(139)**	(1,536)
Effects of:		
Loss on technical account	**522**	1,432
Allocated investment return	**21**	32
Return on pension scheme	**44**	44
Refund from 2017	**-**	7
Total current tax charge / (credit) for the year	**448**	(21)

(c) Provision for deferred taxation

	2019 £'000	2018 £'000
Deferred tax at 1 January	**(40)**	(2)
Movement in the provision	**39**	(38)
Deferred tax at 31 December	**(1)**	(40)

In 2019, a deferred tax asset of £nil (2018:£38,000) was recognised in relation to unrealised investment losses.

13. Deficit for the financial year

Consistent with Section 408 of the Companies Act 2006 the Society income statement is not presented as part of these financial statements. The Group deficit for the financial year was £2,920.000 (2018: deficit £5,787,000) which includes a £2,842,000 deficit (2018: deficit £5,332,000) reported in the financial statements of the Society.

14. Intangible assets

	Group	**The Society**
	Software development £'000	**Software development** £'000
Cost		
At 1 January 2019	**5,353**	**5,353**
Additions	**988**	**988**
At 31 December 2019	**6,341**	**6,341**
Accumulated amortisation		
At 1 January 2019	**(2,903)**	**(2,903)**
Charge for the year	**(598)**	**(598)**
At 31 December 2019	**(3,501)**	**(3,501)**
Net book value at 31 December 2019	**2,840**	**2,840**
Net book value at 31 December 2018	2,450	2,450

15. Financial investments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

	Group		The Society	
	2019	**2019**	**2019**	**2019**
	Fair value £'000	Cost £'000	Fair value £'000	Cost £'000
Financial assets				
Shares and other variable securities in unit trusts	**38,028**	**37,732**	**38,028**	**37,732**
Cash and cash equivalents	**8,080**	**8,072**	**8,080**	**8,072**
Total	**46,108**	**45,804**	**46,108**	**45,804**

	Group		The Society	
	2018	2018	2018	2018
	Fair value	Cost	Fair value	Cost
Financial assets				
Shares and other variable securities in unit trusts	41,922	42,478	41,922	42,478
Cash and cash equivalents	9,011	9,013	9,011	9,013
Total	50,933	51,491	50,933	51,491

The Group has no financial liabilities. (2018:£nil)

16. Investment in subsidiaries

	The Society	
	2019 £'000	**2018** £'000
Cost at 1 January and 31 December	**475**	475
Provision for impairment at 1 January	**(211)**	(211)
Movement in provision	**-**	-
Provision for impairment at 31 December	**(211)**	(211)
Net book value at 31 December	**264**	264

The Society owns 100% of the ordinary shares of five subsidiaries, all of whom are registered in England and Wales at Kings Court, London Road, Stevenage, Hertfordshire, SG1 2TP. The subsidiaries are UIA (Insurance Services) Limited, which acts as an insurance broker, UIA (Call Centres) Limited, which acts as an operator of telephone call centres, UIA (Trustees) Limited, which acts as corporate trustee for the UIA Charitable Foundation, UIA Lottery Management Services Limited which acted as a lottery operator; and Uniservice Limited, a dormant Company.

Notes to the Financial Statements (continued)
for the year ended 31 December 2019

17. Technical provisions - assets

	Group		The Society	
	2019	**2018**	**2019**	**2018**
	£'000	£'000	£'000	£'000
a) Reinsurers share of unearned premium				
At 1 January	**731**	2,269	**731**	2,269
Movement in provision	**(63)**	(1,538)	**(63)**	(1,538)
Reinsurers share of outstanding claims at 31 December	**668**	731	**668**	731
b) Reinsurers share of outstanding claims				
At 1 January	**1,698**	2,146	**1,698**	2,146
Movement in provision	**177**	(448)	**177**	(448)
Reinsurers share of outstanding claims at 31 December	**1,875**	1,698	**1,875**	1,698

18. Other debtors

	Group		The Society	
	2019	**2018**	**2019**	**2018**
	£'000	£'000	£'000	£'000
Amounts owed by other parties	**564**	465	**439**	465
Deferred tax asset	**-**	40	**-**	38
Amounts due from subsidiaries	**-**	-	**-**	407
	564	505	**439**	910

Amounts due from subsidiaries are unsecured and are repayable on demand.

19. Tangible assets

(a) Tangible assets – Group

	Computer equipment & systems £'000	Furniture, fixtures & fittings £'000	Total £'000
Cost			
At 1 January 2019	**377**	**286**	**663**
Additions	**17**	**7**	**24**
Disposals	**(6)**	**-**	**(6)**
At 31 December 2019	**388**	**293**	**681**
Accumulated depreciation			
At 1 January 2019	**(329)**	**(251)**	**(580)**
Charge for the year	**(38)**	**(12)**	**(50)**
Disposals	**6**		**6**
At 31 December 2019	**(361)**	**(263)**	**(624)**
Net book value at 31 December 2019	**27**	**30**	**57**
Net book value at 31 December 2018	48	35	83

(b) Tangible assets – The Society

	Computer equipment & systems £'000	Furniture, fixtures & fittings £'000	Total £'000
Cost			
At 1 January 2019	**341**	**243**	**584**
Additions	**16**	**7**	**23**
Disposals	**(6)**	**-**	**(6)**
At 31 December 2019	**351**	**250**	**601**
Accumulated depreciation			
At 1 January 2019	**(293)**	**(208)**	**(501)**
Charge for the year	**(37)**	**(12)**	**(49)**
Disposals	**6**	**-**	**6**
At 31 December 2019	**(324)**	**(220)**	**(544)**
Net book value at 31 December 2019	**27**	**30**	**57**
Net book value at 31 December 2018	48	35	83

Notes to the Financial Statements (continued)
for the year ended 31 December 2019

20. Deferred acquisition costs

	Group		The Society	
	2019 £'000	2018 £'000	**2019** £'000	2018 £'000
At 1 January	**668**	1,073	**668**	1,073
Movement in provision	**(205)**	(405)	**(205)**	(405)
Deferred acquisition costs at 31 December	**463**	668	**463**	668

21. Share capital

	Group		The Society	
	2019 £'000	2018 £'000	**2019** £'000	2018 £'000
Issued and fully paid up 96,552 ordinary shares of 1p (2018:145,467)	**1**	1	**1**	1

Policyholders and joint policyholders of home insurance policies are also members of the Society. A 1p share is allocated to each member when they first take out a home insurance policy and the share or shares are cancelled upon cessation of their policy. As such, the number of ordinary shares in issue changes each year in line with the number of members.

22. Technical provisions - liabilities

a) Provision for gross unearned premium

	Group		The Society	
	2019 £'000	**2018** £'000	**2019** £'000	**2018** £'000
At 1 January	**12,085**	12,693	**12,085**	12,693
Movement in provision	**(2,061)**	(608)	**(2,061)**	(608)
Unearned premium at 31 December	**10,024**	12,085	**10,024**	12,085

b) Provision for gross outstanding claims

	Group		The Society	
	2019 £'000	**2018** £'000	**2019** £'000	**2018** £'000
Notified claims at 1 January	**8,355**	8,656	**8,355**	8,656
Movement in provision	**(1,619)**	(301)	**(1,619)**	(301)
Notified claims at 31 December	**6,736**	8,355	**6,736**	8,355
Claims incurred but not reported (IBNR) at 1 January	**5,507**	3,877	**5,507**	3,877
Movement in provision	**(1,466)**	1,630	**(1,466)**	1,630
Claims incurred but not reported (IBNR) at 31 December	**4,041**	5,507	**4,041**	5,507
Gross outstanding claims at 31 December	**10,777**	13,862	**10,777**	13,862

Notes to the Financial Statements (continued)
for the year ended 31 December 2019

22. Technical provisions – liabilities (continued)

	Group		The Society	
	2019	**2018**	**2019**	**2018**
	£'000	£'000	£'000	£'000
c) Unearned commissions				
At 1 January	**412**	417	**412**	417
Movement in the provision	**(10)**	(5)	**(10)**	(5)
Unearned commission at 31 December	**402**	412	**402**	412

Within the movement in the provision for outstanding claims, there is a charge of £849,000 (2018: release £1,249,000) which arose as outstanding claims were settled below reserves held as at 31 December 2018. This has been credited to the current year consolidated technical account.

23. Other technical provisions

	Group		The Society	
	2019	**2018**	**2019**	**2018**
	£'000	£'000	£'000	£'000
Provision for unexpired risks				
At 1 January	**745**	974	**745**	974
Movement in the provision	**(745)**	(229)	**(745)**	(229)
Unexpired risks at 31 December	**-**	745	**-**	745

24. Provisions for other risks

	Group		The Society	
	2019	**2018**	**2019**	**2018**
	£'000	£'000	£'000	£'000
Defined benefit pension scheme liability				
Provision at 1 January	**8,544**	10,295	**8,544**	10,295
Credit recognised through changes in equity	**1,739**	(2,278)	**1,739**	(2,278)
Expense recognised through profit and loss				
Net interest expenses	**234**	233	**234**	233
Running costs	**113**	102	**113**	102
Pension contributions	**(1,490)**	(1,147)	**(1,490)**	(1,147)
Current service cost	**1,163**	1,209	**1,163**	1,209
Past service cost	**-**	130	**-**	130
Expense recognised through profit and loss	**20**	527	**20**	527
Net movement in provision	**1,759**	(1,751)	**1,759**	(1,751)
Provision at 31 December	**10,303**	8,544	**10,303**	8,544

25. Other creditors

	Group		The Society	
	2019	**2018**	**2019**	**2018**
	£'000	£'000	£'000	£'000
Corporation tax payable	**97**	11	**91**	-
Amounts owed to other parties	**941**	1,280	**798**	1,158
Amounts due to subsidiaries	**-**	-	**21**	149
	1,038	1,291	**910**	1,307

Amounts due to subsidiaries are unsecured and are payable on demand.

26. Reconciliation of operating loss to cash generated by operations

	2019 £'000	2018 £'000
Operating loss before taxation	**(732)**	(8,086)
Adjustment for:		
Investment Income	**(2,331)**	199
Pension expense recognised through profit and loss	**20**	527
Depreciation	**50**	36
Amortisation	**598**	363
Loss on impairment of property, plant and equipment	**-**	-
Operating cash flows before movements in working capital	**(2,395)**	(6,961)
Decrease in reinsurance assets	**(178)**	447
Decrease / (Increase) in deferred acquisition costs	**206**	404
(Decrease) / Increase in provision for unearned commission	**(10)**	(5)
Increase in insurance contract liabilities	**(3,084)**	1,309
Decrease / (increase) in receivables	**2,067**	2,566
Decrease / (Increase) in accrued interest and prepayments	**26**	512
(Decrease) / Increase in unearned premiums	**(2,061)**	(608)
(Decrease) / Increase in payables	**(2,035)**	(2,502)
(Decrease) / Increase in other technical provisions	**(745)**	(230)
Cash generated by operations	**(8,209)**	(5,068)
Taxes paid	**(282)**	(635)
Net cash flow used by operating activities before investment of insurance assets	**(8,491)**	(5,703)
Interest and dividends received	**1,196**	1,279
Sales of financial investments	**10,974**	34,852
Purchase of financial investments	**(6,000)**	(32,616)
Other investment income	**48**	74
Net investment expenses	**(3)**	(7)
Cash generated from investment of insurance assets	**6,215**	3,582

27. Operating lease commitments

The future minimum annual lease payments payable under non-cancellable operating leases expiring in the years shown below, are as follows:

	Group Land and buildings		The Society Land and buildings	
	2019	**2018**	**2019**	**2018**
	£'000	£'000	£'000	£'000
Operating leases which expire:				
within one year	**227**	-	**227**	-
in two to five years	**-**	306	**-**	306
after more than five years	**-**	-	**-**	-
	227	306	**227**	306
Operating lease rentals charged to profit and loss in the year	**306**	306	**306**	306

28. Related parties

Directors

Members of the Board of Directors may also be members of the Society through having insurance policies with the Society. These are on the same terms as other colleagues.

Directors' emoluments are disclosed in note 9.

Group Companies

UIA (Insurance) Limited transacts with other group companies in the normal course of business.

The Society has taken advantage of the exemption available under paragraph 33.1A of FRS 102 and has not provided details of transactions with entities forming part of the UIA Group.

29. Capital commitments

The Group has no capital commitments for tangible or intangible assets contracted for and payable within 12 months (2018: nil).

30. Retirement benefit obligations

All colleagues of the Society are eligible to join either the Society's defined benefit pension scheme, or its defined contribution scheme.

Defined benefit scheme

The Society participates in a funded pension scheme, The UNISON Staff Pension Scheme, which provides benefits for some of its employees based on final pensionable pay. The scheme is open to new members. The Society is one of several employers that participate in the scheme.

The assets of the scheme are held in a separate trustee-administered fund. The scheme is administered by trustees and is independent of the Societies finances

Contributions are paid to the scheme in accordance with the Schedule of Contributions agreed between the trustees and the employers. The estimated amount of contributions expected to be paid to the scheme by the Society during 2020 is £1,601,000 (2019: £1,157,000).

The scheme is actuarially valued every three years. The valuation as at 30th June 2017 has now been completed by the Trustees and the scheme actuary and the Trustees of the scheme and the sponsoring employers have agreed a revised schedule of contributions that, in conjunction with other assumptions, would repay this deficit by 30th September 2035.

These include increased contributions payable as part of the deficit recovery plan as detailed below:
£54,852 In respect of calendar year 2018;
£54,852 in respect of calendar year 2019;
£54,852 in respect of calendar year 2020;
An increase in annual contribution rate from 25% of pensionable salaries to 26.8% for the period 1st January 2019 to 30th September 2035; and
Additional annual contributions of £109,704 for the period 1st January 2020 to 30th September 2035

It is not possible to quantify the total amount of additional contributions payable over the next 18 years. As an indication, if pensionable salaries were to increase at a rate of 3.5% per annum over the 18 years, the total amount payable over the 18 year period in respect of these additional contributions amounts to £3,450,000. If the increase in pensionable salaries was 4.5%, an increase of 1%, the total amount payable would increase by £200,000 over the same period.

30. Retirement benefit obligations (continued)

The results of the formal actuarial valuation as at 30 June 2017 were updated to 31 December 2019 by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liability has been measured using the projected unit method. The funding target is for the scheme to hold assets equal in value to the accrued benefits based on projected salaries. If there is a shortfall against this target then the Society and trustees will agree on deficit contributions to meet this deficit over a period.

The assets and liabilities of the scheme are not segregated between the employers that participate in the scheme. Consequently, the share of the scheme's liabilities in respect of the Society's employees, and the assets backing those liabilities, has been estimated.

The following table sets out the key FRS 102 assumptions used for the scheme.

Assumptions	2019	2018
Discount rate	**2.2% pa**	3.0% pa
Retail Prices Index inflation	**3.0% pa**	3.2% pa
Consumer Prices Index inflation	**1.9% pa**	2.1% pa
Pension increases in payment	**3.0% pa**	3.2% pa
General salary increases	**2.4% pa**	2.6% pa
Life expectancy of male currently aged 65	**25.9 years**	26.4 years
Life expectancy of female currently aged 65	**28.1 years**	28.6 years
Life expectancy of male aged 65 in 20 years' time	**27.4 years**	28.0 years
Life expectancy of female aged 65 in 20 years' time	**29.7 years**	30.2 years

The amount included in the Group and Society balance sheets arising from the Society's obligations in respect of the scheme is as follows:

	2019 £'000	2018 £'000
Present value of defined benefit obligation	**(42,510)**	(37,073)
Fair value of scheme assets	**32,207**	28,529
Deficit	**(10,303)**	(8,544)

The amounts recognised in the loss for the year are as follows:

	2019 £'000	2018 £'000
Current service costs	**1,163**	1,209
Running costs	**113**	102
Interest expense on net defined benefit liability	**234**	233
Past service costs	**-**	130
Total expense recognised in profit or loss	**1,510**	1,674

30. Retirement benefit obligations (continued)

The following amounts are included in finance income:

	2019 £'000	2018 £'000
Running costs	**113**	102
Net interest charged on net defined liability	**234**	233
Total charge to finance income	**347**	335

The current allocation of the scheme's assets is as follows:

	2019 %	2018 %
Equity instruments	**44**	39
LDI Instruments	**15**	-
Debt instruments	**10**	30
Property	**10**	4
Multi-asset funds	**20**	21
Cash	**1**	6
	100%	100%

Changes in the present value of the Society's share of the defined benefit obligation are as follows:

	2019 £'000	2018 £'000
Opening present value of defined benefit obligation	**37,073**	40,946
Current service cost	**1,163**	1,209
Interest on obligation	**1,103**	976
Contributions from scheme members	**-**	-
Actuarial gain	**3,807**	(5,633)
Benefits paid	**(636)**	(555)
Past service costs	**-**	130
Closing present value of defined benefit obligation	**42,510**	37,073

Changes in the fair value of the Society's share of the scheme's assets are as follows:

	2019 £'000	2018 £'000
Opening fair value of the scheme assets	**28,529**	30,651
Interest on scheme assets	**869**	743
Actuarial return less interest on scheme assets	**2,068**	(3,355)
Running costs	**(113)**	(102)
Contributions by the employer	**1,490**	1,147
Contributions by scheme members	**-**	-
Benefits paid	**(636)**	(555)
Closing fair value of scheme assets	**32,207**	28,529

30. Retirement benefit obligations (continued)

The actual return on the Society's share of the scheme's assets over the year was a gain of £2,937,000 (2018: a loss of £2,7612,000).

The sensitivity of defied benefit obligation to alternative assumptions is as follows:

	Increase £'000	Decrease £'000
Discount Rate		
Effect of an increase / decrease of 0.1% pa in net liabilities	**(939)**	**970**
Price inflation		
Effect of an increase / decrease 0.1% pa in net liabilities	**923**	**(895)**
Life expectancy		
Effect of an increase / decrease of one year in net liabilities	**1,383**	**(1,376)**

Note: positive values represent an increase in net liabilities / negative values a reduction in net liabilities

Defined contribution scheme

The Society's defined contribution scheme is administered by a third party. The Society pays contributions along with participating colleagues, and benefits are linked to the total level of contributions paid, the performance of each colleague's chosen investment fund and the form in which colleagues chose to take their benefits. The estimated amount of contributions expected to be paid to the scheme by the Society during 2019 is £27,000 (2018: £ 26,000).

UIA (Insurance) Limited

Glossary
for the year ended 31 December 2019

Strategic Report

Key performance indicators

Combined Operating Ratio = $\dfrac{\text{Total Technical charges}}{\text{Net Earned Premiums}}$

Household Loss Ratio = $\dfrac{\text{Claims paid + Change in provision for claims – reinsurers' share + other technical provisions}}{\text{Net Earned Premiums}}$

Underlying Household Expense ratio = $\dfrac{\text{Net Operating Expenses}}{\text{Net Earned Premiums}}$

Investment Yield = $\dfrac{\text{Net Investment Income + Realised gains – Investment expenses}}{\text{Prior year investment balance}}$

Return on Capital employed (ROCE) = $\dfrac{\text{Total comprehensive income for the year}}{\text{Prior year Shareholders Equity}}$

Solvency II cover = $\dfrac{\text{Total eligible own funds}}{\text{SCR}}$

Conduct risk indicators

Service levels – customer service and new business = % of calls answered within 30 seconds

Claims abandoned calls = % of claims calls not answered before caller stops the call

Not taken up = % of sales cancelled within the 14-day cooling off period

Declined claims = % of $\dfrac{\text{Claims declined in month}}{\text{Claims logged in the month}}$

Customer satisfaction = % of respondents of the "How are we doing" survey responding "Extremely" or "Quite" satisfied to the question "Overall, how satisfied have you been with customer services?"

Reportable complaints to the Financial Ombudsman is the number of complaints taken to the mediator in the year