

# PAMIA LIMITED

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## **PAMIA LIMITED SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)**

**FOR THE YEAR ENDED 30 JUNE 2020**

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## SUMMARY

The harmonised EU-wide regulatory regime for Insurance Companies, known as Solvency II, came into force with effect from 1 January 2016. The regime requires new reporting and public disclosure arrangements to be put in place by insurers and some of that is required to be published on PAMIA Limited; (the Company) public website.

This report covers the Business and Performance of the Company, its System of Governance, Risk Profile, and Valuation for Solvency Purposes, Capital Management and required Quantitative Reporting Templates. The ultimate Administrative Body that has the responsibility for all of these matters is the Company's Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

The Company's financial year runs to 30 June each year and it reports its results in GBP-Pound Sterling.

For Solvency purposes the Company uses the standard formula to calculate its Solvency Capital Requirement (SCR) and as a mutual mono line insurer providing professional indemnity insurance to patent attorneys and trademark attorneys. The Company's insurance business is classified as General Liability business for Solvency II purposes. All business is underwritten from the United Kingdom.

By far the largest risk the Company faces as an insurance company is a severe reversal in what has in recent years been a relatively benign claims experience. The claims history demonstrates that, quite unexpectedly, claims can climb to levels that could have an impact on its financial strength were it not adequately reserved.

Accordingly, the Company has always adopted a conservative approach to its operations. This is to ensure that it has strong reserves that are capable of absorbing any exaggerated developments in its claims experience without future Members having to pay for the claims of their predecessors. It also helps in ensuring that the Company has time to react to any unexpected increases in its costs base (the cost of reinsurance for example), or its regulatory capital requirement, without having to take drastic unplanned measures.

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## SUMMARY (continued)

At the same time, however, the Board is highly conscious of not accumulating reserves in excess of what a sensible degree of prudence requires. To this end, and as part of its Risk Appetite Statement, the Board formulated and has for some years applied a consistent policy to the amount of capital reserves it should hold above its regulatory capital requirement to ensure that it has enough to absorb any unexpected shocks but not too much. The policy is to capital reserves between £5m and £7.750m in excess of the Regulatory Solvency Capital Requirements (its SCR).

	Year ended 30 June 2020	Year ended 30 June 2019
	£'000	£'000
Solvency Capital Requirement	4,591	5,642
Minimum buffer	5,000	5,000
Minimum Limit	9,591	10,642
Maximum buffer	2,750	2,750
Maximum limit	12,341	13,392
Capital Reserves for Regulatory Purposes	14,382	15,040
Excess over maximum capital requirements	2,041	1,648

As part of its Risk Appetite Statement, where the Company's capital reserves exceed the upper end of the target range set in its capital resources policy, it is required to manage its free reserves into the target range over a reasonable period. To achieve this, it can reduce the rates it sets or increase the level of premium deferral granted to Members, or it can do both. Thus, for the 2019 renewal, and without departing from its underwriting criteria the Board decided to hold the 2018 premium and deferral rates

During the year under review, the Company suffered a deficit of £0.330m as reported in its annual financial statements under UK GAAP. This deficit was primarily due to the performance of its investment portfolio, which fell by 0.81% because of market volatility caused by the Covid-19 pandemic. The deficit has been mitigated by the increase in premium received, in spite of maintaining premium rates. This was because of increased fee income earned by members. The other factor, which helped, was the lower claims paid in the year. The reinsurance premium of £1.1m remains unchanged from last year and is due to PAMIA's very good claims record.

Free reserves of the Company as at 30 June 2020 now stand at £15.324m.

For solvency purposes, the Company's Regulatory capital reserves are £14.382m and its Solvency Capital Requirement (SCR) is £4.591m; at the year-end, the Company exceeds its SCR by £9.791m (ratio of 313%).

The Company's Minimum Capital Requirement (MCR) has been calculated at £3.187m; at the year-end, the Company exceeds its minimum capital requirement by £11.195m (ratio of 451%).

# PAMIA LIMITED

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## DIRECTORS REPORT

### Directors' Responsibilities

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations. The Solvency II Directive, the Delegated Acts, related Implementation Rules, Technical Standards and Guidelines, as well as PRA rules provide the regulatory framework in which the Company operates. The Solvency II rules and regulations include, but are not limited to, the recognition and measurement of its assets and liabilities including Technical Provisions and Risk Margin, the calculation of its capital requirement and the reporting and disclosures of the Solvency II results.

### Directors' Statement

We are satisfied that:

- throughout the financial period in question, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- it is reasonable to believe that the Company has continued so to comply subsequently and will continue so to comply in future.

### Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, each of the persons who is a director in office at the date this report is approved, confirms that: (a) so far as each of them is aware, there is no relevant audit information of which the auditors are unaware; and (b) each of them has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board



Rajiv Harnal  
Chief Financial Officer  
PAMIA Limited  
1 October 2020

# PAMIA LIMITED

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## AUDITORS REPORT

Report of the external independent auditor to the Directors of PAMIA Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II Firms.

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

#### Opinion

Except as stated below, we have audited the following documents prepared by PAMIA Limited as at 30 June 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of PAMIA Limited as at 30 June 2020, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 ('the Templates subject to audit').

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report ('the Responsibility Statement').

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of PAMIA Limited as at 30 June 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determination.

# PAMIA LIMITED

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## **AUDITORS REPORT (continued)**

### Basis for opinion

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

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you were:

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

### Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' section of the Solvency and Financial Condition Report, which describes the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

### Other Information

The Directors are responsible for the Other Information.

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



## **AUDITORS REPORT (continued)**

### Other Information (continued)

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

### Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

The same responsibilities apply to the Audit of the Solvency and Financial Condition Report.

# PAMIA LIMITED

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## AUDITORS REPORT (continued)

### Report on Other Legal and Regulatory Requirements.

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

### Use of our Report

This report is made solely to the Directors in accordance with Rule 2.1 of External Audit Chapter of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose. To the fullest permitted by law, we do not accept or assume responsibility to anyone other than the Directors, for our work, for this report, or for the opinions we have formed

*PKF Littlejohn LLP*

PKF Littlejohn LLP  
Statutory Auditor  
15 Westferry Circus  
Canary Wharf  
London  
E14 4HD

7 October 2020

# PAMIA LIMITED

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## **A. BUSINESS AND PERFORMANCE**

### **A.1. BUSINESS**

PAMIA Limited ('the Company') is a company limited by guarantee regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The Directors of the Company are responsible for ensuring that the business is operated at all times in accordance with the requirements of the PRA and FCA, as well as discharging their fiduciary and statutory duties. The PRA is located at 20 Moorgate, London, EC2R 6DA, United Kingdom and the FCA at 12 Endeavour Square, London, E20 1JN United Kingdom.

The Company is incorporated in England as a Company limited by guarantee and not having share capital. In the event of liquidation, the net assets of the Company are to be distributed amongst such Members as per the rules set out in the Articles of Association.

The external auditors of the Company are PKF Littlejohn LLP situated at 15 Westferry Circus, Canary Wharf, London, E14 4HD.

PAMIA is a mutual insurance company providing profession indemnity insurance to patent attorneys and trademark attorneys. PAMIA has set strict eligibility criteria to determine who is eligible to apply to be insured to ensure that the firms and individuals it insures are a compatible risk. PAMIA provides insurance under the same terms to everyone it insures.

During the later part of the year, the UK government imposed a lockdown due to Covid-19, this did not have a material impact on the Company.

# PAMIA LIMITED

## A.2. UNDERWRITING PERFORMANCE

All of the Company's business is underwritten from the UK. The Company writes only one line of business, which is to provide professional indemnity insurance to patent attorneys and trademark attorneys.

For the twelve months to 30 June 2020, the Company produced a deficit of £0.330m as detailed further in the table below, which is a summary of the Company's technical account reported on a UK GAAP basis.

The table below compares the key financial information from the 2020 financial period with the corresponding figures from the 2019 financial year.

<b>Amounts in £'000</b>	<b>12 months to 30 June 2020</b>	<b>12 months to 30 June 2019</b>
Premium written	2,419	2,282
Reinsurance premium	(1,092)	(1,100)
Net claims	(434)	(901)
Operating expenses	(871)	(784)
Surplus/(deficit) on technical account	22	(503)
Investment Income	(319)	545
Surplus/(deficit) before tax	(297)	42
Tax (charged)/credited	(33)	(99)
Surplus/(deficit) for the year	(330)	(57)
Free reserves at year end	15,324	15,654

Premium rates have remained unchanged due to the Board decision to maintain rates given to members as part of its capital management policy to maintain its free reserves within the agreed bands, but have been offset by increased fee income declared by Members.

Reinsurance premium have remained largely unchanged from last year.

Net claims incurred are down from last year and reflect the general nature of the business with no particular trends developing. The Company is protected against the incidence of claims by reinsurance contracts. In respect of the period ended 30 June 2020 the Company had reinsurance cover relating to claims and settlement costs of £5m in excess of £0.4m each and every claim but limited to £2.3m ultimate net loss in the aggregate including costs and expenses.

# PAMIA LIMITED

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## A.2. UNDERWRITING PERFORMANCE (continued)

Operating expenses are up from last year and are due to normal operating activities, the main increase mainly due to additional meeting expenses. Expenses last year were lower than normal because of expense accruals being released.

### Investments

PAMIA requires its investment portfolio to be invested in a manner, which assists it in maintaining its financial strength by preserving capital to meet its liabilities, and delivering positive investment returns over the medium term to subsidise premiums.

PAMIA's assets are divided between a Short Term Fund, a Capital Fund and a Growth Fund. The breakdown is shown below:

Amounts in £'000	30 June 2020	30 June 2019
Short Term Fund	1,210	1,420
Capital fund	10,334	9,941
Growth Fund	8,873	10,071
Market value (including accrued interest)	20,417	21,432

The purpose of the Short Term Fund is to provide liquidity to meet PAMIA's projected operating cash flow requirements over the period of 12 months.

The purpose of the Capital Fund is to cover PAMIA's claims liabilities and regulatory capital requirements. In this context, "claims liabilities" does not include the run-off claims handling reserve.

The purpose of the Growth Fund is to hold free reserves for investment in riskier assets to generate positive returns over the medium term.

The investment return for the period under review was a negative 0.81% (2019: positive 3.13%).

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## A.3. INVESTMENT PERFORMANCE

In accordance with the Investment policy, the investment mandate is updated on a regular basis, with a full review-taking place every three years.

The following table details the Company's investment income by asset class as reported in the Company's UK GAAP financial statements:

	12 months to 30 June 2020 £'000	12 months to 30 June 2019 £'000
<b>Assets</b>		
Fixed interest Securities	10,044	9,053
Equities & Alternatives	8,035	9,963
UCITS	2,304	2,357
	<u>20,383</u>	<u>21,373</u>
	12 months to 30 June 2020 £'000	12 months to 30 June 2019 £'000
Interest on listed investments	435	523
Gain /(loss) on foreign exchange	67	34
Bank deposit interest	-	2
	<u>502</u>	<u>559</u>
Gains/(losses)on realisation of investments	211	(67)
	<u>713</u>	<u>492</u>
Unrealised gains/(losses) on investments	<u>(918)</u>	<u>163</u>

Expenses related to the management of these investments were £8k for the year (2019: £8k).

The Income and Expenditure account and movement in reserves may be seen on page 22 of the Company's Annual Report and Financial Statements.

## A.4. PERFORMANCE OF OTHER ACTIVITIES

The Company has no other activities other than its main insurance activities presented in A.2

## A.5. ANY OTHER INFORMATION

There have been no other material matters affecting business and performance.

## B. SYSTEM OF GOVERNANCE

### B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

#### ***B1.1 Overview***

##### *The Board of Directors*

Ultimate responsibility for the governance of the Company rests with the Board of Directors. The Company's Directors are drawn from patent and trademark attorneys within the Membership. The Directors meet three times a year. The Articles and the Rules give the Board of Directors wide powers to manage the affairs of the Company and set out how these powers are to be exercised.

All the Directors are Members of the Company other than the Chief Executive Officer and Chief Financial Officer who are employed by Thomas Miller, Managers of the Company.

Although the Managers administer the business of the Company on a day-to-day basis, ultimate responsibility remains with the Directors.

The following items come up annually for consideration at Board Meetings:

- Reinsurance for the next policy year;
- Rates charged to Members and the terms of insurance;
- Approval of the Annual Report and the audited Financial Statements for the previous year;
- Investment policy;
- Approval of Regulatory returns;
- Claims development;
- Reserving;
- Business risk review.

The Managers present the items on the Agenda, which the Board then considers.

The Articles allow the Directors to delegate any of their powers to Committees, although the Committee must then conform to any conditions put on it by the Directors.

#### ***B1.1.1 Committees***

The following committees aid the Board in its duties:

**Audit & Risk Committee** assists the Board in recommending the approval of the Financial Statements, and year-end claims reserves. The Committee ensures that the Company complies and meets all legal and regulatory requirements. It is responsible for assessing the Business Risk of the Company. It is also responsible for internal and external audit appointments and to provide a clear channel of communication between the Board and the auditors.

**Canada Committee** assists the Board in considering the feasibility of Insuring Canadian patent and trademark Attorneys.

**The Claims Committee** assists the Board in reviewing in detail PAMIA's notifications and claims on an anonymised basis and making recommendations to the Managers as steps that might be taken to resolve them satisfactorily. The Committee assists the Board in identifying specific or general risks emerging from claims against Members.

# PAMIA LIMITED

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## **B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE (continued)**

### ***B1.1.1 Committees (continued)***

**Investment Committee** assists the Board in reviewing in detail the performance of PAMIA's investments and make recommendations to the Board in respect of the Investment Policy, Investment Mandate and other investment related issues.

**Management Committee** is responsible for monitoring the performance and effectiveness of PAMIA, including general oversight of the Managers and the effectiveness of the Board. The Committee is also the focal point for PAMIA's external relationships, including Members and organisations such as Intellectual Property Regulation Board (IPREG), Chartered Institute of Patent Attorneys (CIPA) and Chartered Institute of Trade Mark Attorneys (CITMA).

**Management Fee Committee** assists the Board to determine the Management Fee to be paid to the Managers.

**The Nominations Committee** advises the Board on the appointment and retention of Directors and Consultants and assist the Managers in providing guidance to Directors on their responsibilities.

**The Rating & Reinsurance Committee** assists the Board in reviewing the rating structure and reinsurance programme, make annual recommendations to the Board in respect of the same and oversee the performance of the Insurance Consultants.

**Rules and Cover Committee** helps determine the entry requirements for PAMIA membership, reviews PAMIA's Memorandum and Articles of Association, reviewing terms of cover offered to members, determines the terms of engagement with the Managers, Investment Managers and Insurance Consultants, ensures consistency of between the reinsurance cover and terms of cover provided to members and ensuring that the cover provided to Members is consistent with the minimum terms set by IPREG.

### **B1.1.2 Key functions**

#### *The Managers*

The Company has no employees and as such, the Board relies on the Managers for the day-to-day management duties of the Company. The functions and responsibilities of the Managers are set out in the Management Agreement between the Managers and the Company.

The Board may delegate a wide range of powers, duties and discretions to the Managers on such terms as it sees fit. The Managers shall be entitled to attend meetings of the Directors and of committees of the Directors and General meetings of the Company unless the Directors otherwise require.

The Managers have for many years discharged the role of Chief Executive Officer and Chief Financial Officer to PAMIA given their day-to-day proximity to the Company's operations. However, the Small Business, Enterprise and Employment Act 2015 abolished corporate directorships and all directors are now required to be natural persons. In preparation for the change, the Company's Articles of Association were amended in 2015. The Articles now allow representatives of our Managers to be appointed to the positions of Chief Executive Officer and Chief Financial Officer.



## **B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE (continued)**

### **B1.1.2 Key functions (continued)**

#### *The Investment Managers*

Investment of the Company's funds is conducted by the Investment Managers in accordance with the Board's Investment Policy and is subject to internal compliance procedures.

The functions and responsibilities of the Investment Managers are set out in the Management Agreement between the Investment Managers and the Company.

#### *Responsibilities Map*

The Company maintains a governance map that details the key Senior Manager Functions and Key Functions. The following functions are maintained through the Responsibilities Map with a prescribed set of responsibilities:

- Chairman (Board)
- Chief Executive Officer (Managers)
- Chief Financial Officer (Managers)
- Chief Operations Function (Managers)
- Chief Risk Officer (Managers)
- Head of Internal Audit (Managers)
- Chief Actuary (Managers)
- Compliance Officer (Managers)
- Money Laundering Reporting Officer (Managers)

### **B.1.2. Remuneration**

Directors receive no annual or attendance fee.

The Company has no internal executive function and its management is wholly performed by companies within the Thomas Miller Holdings Ltd group of companies. The Managers are responsible for recruitment in line with the Thomas Miller Group Recruitment Policy and performance management, ensuring that all staff have and maintain the relevant skills, knowledge and expertise necessary to perform their roles and responsibilities. The Managers' remuneration is paid for by Thomas Miller.

The Company pays the Managers a fixed fee for the management of PAMIA.

### **B.1.3. Related party transactions**

The Company has no share capital and is controlled by the Members who are also the insureds. There have been no related party transactions between the Company and its members outside the normal course of business.

All the Directors are Members of the Company other than the Chief Executive Officer and Chief Financial officer who are employed by Thomas Miller, Managers of Thomas Miller Professional Indemnity. Other than their own insurance the Directors have no financial interests in the Company, the Member Directors received no remuneration for their services to the Company.

## **B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE (continued)**

### **B.1.3. Related party transactions (continued)**

No such related party transactions have occurred during the year.

### **B.1.4. Adequacy of the system of governance**

The Directors consider the system adequate given the nature, scale and complexity of the risks inherent to the Company. There have been no material changes in the Company's system of governance during the reporting period.

### **B.2. FIT AND PROPER REQUIREMENTS**

The Company has in place a Fit & Proper Policy that sets out its approach to the fitness and propriety of the persons responsible for running the Company, including executive senior management and key function holders.

All persons within the scope of the Company's Fit and Proper policy must have the professional qualifications, knowledge and experience and demonstrate the sound judgement necessary to discharge their areas of responsibility competently, both at the time of their appointment or employment and on a continuous basis to meet the changing or increasing requirements of their particular responsibilities and the business in general.

They must be of good repute and demonstrate in their personal behaviour and business conduct character, integrity and honesty. As part of the assessment, consideration will be given to potential conflicts of interest and financial soundness. The level of fitness must be appropriate and proportionate to each person's role, tasks and responsibilities.

The Board must be composed in a way to ensure that its members collectively possess sufficient knowledge, competence and experience to direct and oversee the Company's affairs effectively.

The Managers maintain role specifications for all executive roles that are within the scope of the Fit and Proper policy, which detail the key competencies, and duties for each position. All persons to whom the policy applies are required to have the appropriate and designated competencies for their positions.

Fit and proper assessments are carried out by the Chairman, the Company Manager or the Compliance Officer. No person is permitted to undertake his or her own assessment.

## **B.3. RISK MANAGEMENT SYSTEM**

PAMIA uses a Risk Management Framework to design an effective risk management system with an integrated approach to risk management and the application of the three lines of defence:

1st line of defence: business functions, process and risk owners

2nd line of defence: risk management and compliance functions

3rd line of defence: internal / external audit

The risk management system includes:

- a clearly defined and well-documented risk management strategy;
- adequate written policies;
- appropriate processes and procedures;
- appropriate reporting procedures;
- reports on the material risks faced by PAMIA and on the effectiveness of the risk management system;
- a suitable Own Risk and Solvency Assessment (ORSA);
- underwriting and reserving risk;
- market risk (including investment, asset-liability management, liquidity and concentration risks);
- reinsurance and other risk mitigation techniques;
- credit risk; and
- operational risk.

The risk management system not only covers the risks included in the calculation of the Solvency Capital Requirement but also other risks to which PAMIA is exposed and which are considered to be materially relevant to its business.

The risk management system also has a coherent focus on data and IT infrastructure governance and appropriate policies and standards to outline the framework within which responsibilities will be exercised. It is supported by a robust internal control system and is designed to identify measure, manage, monitor and report significant risks to the achievement of our business objectives. The core elements of the risk management framework are as follows:

### **Risk Management Strategy**

The objectives of PAMIA's risk management strategy are to identify measure, monitor, manage, and report in a consistent, continuous and timely fashion, based on PAMIA's risk appetite as set by the Board.

The Risk Management Framework helps both support and relay PAMIA's business plan strategy throughout the organisation by ensuring that those factors that may advance or impede the achievement of strategic and operational objectives are managed by strong controls. The risks to which PAMIA is exposed are recorded in the Business Risk Assessment.

Forecasts and long-term projections of how the business needs to develop and which internal and/or external factors might affect or impede such development are considered when carrying out business strategy reviews. Risk related to initiatives and objectives adopted in the business plan are added to the Business Risk Assessment.

## **B.3. RISK MANAGEMENT SYSTEM (continued)**

### **Implementation of the Risk Management Strategy: Risk Policies and Procedures**

PAMIA's strategy is specified in more detail through its policies and business plan, which underpin its day-to-day business. Policies have been developed for all material risks to which PAMIA is exposed. They define PAMIA's approach to risk management overall and more specifically the risk for which the policy has been written. The policies establish the controls, procedures, limits and escalation to ensure that the risks are managed in line with risk appetite. Specific procedures, where appropriate, have been developed to provide full understanding of the means by which the first and second lines of defence will implement the strategy. Policies are reviewed on an annual basis. Policies and related procedures are stored on the Managers' Electronic Quality Management System and are accessible to PAMIA's Managers and all staff in PAMIA's three lines of defence structure.

The policies also include appropriate reporting procedures to ensure that information relating to the component elements of risk management is routinely reported to the Audit & Risk Committee and to the Board.

### **Risk Appetite**

PAMIA's Risk Appetite is articulated in the risk appetite statement, which is a document owned by the Board and reviewed on a regular basis as new risks emerge, or at least annually. PAMIA's business strategy is aligned to the Business Plan and focuses on the following areas:

- We will remain the leading provider of professional indemnity insurance to qualifying practices, maintaining our current market position.
- We will continue to provide high quality cover and services, looking to broaden the cover where to do so are compatible with providing insurance on a mutual basis.
- We will consider opportunities to provide insurance to patent attorneys and trademark attorneys in other common law jurisdictions where we consider it in the interests of current members to do so.

The Board determines the appropriate risk appetite and sets PAMIA's risk strategy. It has developed high-level risk appetites that will be used by the Board to monitor the implementation of the risk strategy. More detailed operational preferences and tolerances are used by the Managers to implement the risk strategy. These are reported to the Board as part of PAMIA's Own Risk & Solvency Assessment (ORSA) and in Risk Reports, as and when tolerances are breached.

The Board bears ultimate responsibility for the management of risk and for maintaining a sound system of internal control that supports the achievement of the business strategy, policies, aims and objectives of PAMIA. The Audit & Risk Committee supports the Board by providing oversight of the Risk Management Function.

## **B.3. RISK MANAGEMENT SYSTEM (continued)**

### **Business Risk Assessment: Measurement and Management**

Risks to the business that could inhibit PAMIA achieving its business plan objectives are described in the Business Risk Assessment, together with the consequences should the risk materialise. The risks are categorised into categories (see below), assessed, and monitored on an ongoing basis.

#### **Emerging Risk Log**

As explained under “Risk Reporting Procedures”, Risk Owners are required to consider a template of questions as part of a regular process of reporting. Included in the questions posed to Risk Owners is whether they have identified potential emerging risks during the reporting period. These are then discussed at a Manager’s Management Committee meeting (which meets quarterly) and included in the Business Risk Assessment which is reviewed at least annually by the Audit & Risk Committee.

#### **Risk Categories**

The Business Risk Assessment includes the following categories of risk:

- Underwriting
- Reserving
- Counterparty / Credit Risk
- Market (including Investment, Asset-Liability Management, Liquidity and Concentration risks)
- Operational (to include)
  - Operational Controls
  - Financial
  - Information Technology
  - Compliance / Regulatory / Legal
- Emerging

#### **Risk Rating**

A rating for each risk is determined by assessing its likelihood (being the likely probability of an occurrence) and impact (being a financial assessment of the significance of the event if it occurs, which includes reputational, legal/regulatory and other measures). Each is presented as a value between 1 and 5 (1 being low and 5 being high) in line with a likelihood/impact matrix with financial impact levels. Risks are defined as Red, Amber, Yellow or Green according to a heat map to assist the Board with the prioritisation of the management of risks and demonstrate the importance of the mitigation or controls in place.

The assessment of each risk is based on Inherent Risk and Residual Risk (i.e. the risk that remains after taking into account the strength of current risk management procedures that are in place).

All risks on the Business Risk Assessment are re-assessed on an ongoing basis and at least annually by the Managers and by the Audit & Risk Committee. The Managers, in collaboration with the Risk Officer, consider the Business Risk Assessment in the light of changes to the business plan.

## **B.3. RISK MANAGEMENT SYSTEM (continued)**

### ***The Managers and Risk Owners***

Each risk on the Business Risk Assessment has a Risk Owner whose responsibilities are:

- To identify and evaluate the risks faced by PAMIA in the area for which the Risk Owner is responsible, providing adequate information on the status of risks (including substantive changes to or deterioration of existing risks and new or emerging risks and loss/near miss events).
- To implement and uphold policies and procedures on risk management and internal control on a continuous basis.
- To maintain continuous oversight of the status of risks and controls and initiate improvements in design and operation of controls where required.
- To consider the level of risk presented by any proposed initiative in furtherance of business plan objectives.
- To submit risk-based reports to meetings of the Managers.
- To review the Business Risk Assessment and draw up recommendations for additions, deletions and amendments.
- To assess the likelihood of the risk occurring and its impact and recommend changes, as appropriate.
- To consider the effectiveness of the controls.

### ***Own Risk and Solvency Assessment (“ORSA”)***

Every year, and on an ad hoc basis, if circumstances materially change, PAMIA prepares an ORSA overview report. The ORSA is the process used by PAMIA to manage its financial and solvency position over the period of its Business Plan and the ORSA overview report is the culmination of this process into a report reviewed by the Board. As such, it is an intrinsic part of PAMIA’s Business Planning Process.

The key elements of the ORSA process are:

- An analysis of PAMIA’s recent performance
- Assessment of PAMIA’s risk profile
- Consideration of business planning and stress scenarios

The Audit & Risk Committee reviews the ORSA and recommends it for approval and use by the Board.

The Board reviews the ORSA and considers appropriate action such as:

- Capital related decisions
- Rating considerations
- Reassessment of risk profile and risk appetite
- Additional risk mitigating actions

The Assessments to date indicate that PAMIA is adequately capitalised.

## B.3. RISK MANAGEMENT SYSTEM (continued)

### **Risk Controls**

PAMIA's Risk Management Framework has been developed to manage risks across the business, using internal control policies, procedures and processes to control risks.

Whereas ultimate control for each risk rests with the Board, day-to-day control is exercised by the Risk Owners unless otherwise stated, as set out in the Business Risk Assessment.

Controls may:

- **Prevent:** controls that reduce the likelihood of the risk occurring. Examples are separation of duties, mandated authorisation or automated processes.
- **Detect:** controls that monitor or identify the risk. Examples are reports or reviews/audits or analyses.
- **Mitigate:** controls that reduce the impact of the risk. Examples are contingency plans and all the contents of the Electronic Quality Management System (EQMS).

Controls may be *proactive* or *reactive*. Those that are proactive should reflect the business plan objectives and seek to not only reduce the negative impact of risk but also increase the positive potential in risk opportunity.

The nature of the controls implemented and the level of control exercised are based on the assessment of likelihood of the risk occurring and its impact; PAMIA's risk appetite; and the cost of implementing controls relative to the significance of the risk.

The Risk Management Framework encompasses a number of elements that together facilitate an effective and efficient operation, enabling PAMIA to respond to a variety of risks. These elements include:

- **Business planning and budgeting**  
The annual business planning and budgeting process is used to set objectives, agree action plans, and allocate resources. Progress towards meeting business plan objectives is monitored regularly.
- **Risk based decision making**  
PAMIA embeds risk management thinking into all major decisions. Financial and non-financial risks are identified as well as ways of managing them down to levels within PAMIA's risk appetite.
- **Policies and procedures**  
A series of policies underpin the internal control process in relation to risks. The Internal Control Framework document sets out PAMIA's underlying approach to internal control. PAMIA's Board sets the policies. EQMS procedures support the policies where appropriate.
- **Early warning mechanisms**  
Early warning mechanisms are risk indicators that alert Risk Owners before a risk crystallises so that proactive action can be taken to manage the potential hazard.



## B.3. RISK MANAGEMENT SYSTEM (continued)

- **Key risk indicators:** Where possible, key risk indicators are generated. Key risk indicators, together with key performance indicators, provide information/reports/financial indicators that are reviewed by the Risk Owners to monitor the risk, give advance warning of a possible increased risk, and form part of the management reporting structure.
- **External data:** Risk Owners review external sources of information, including from or concerning PAMIA's client marketplace, competitor information, insurance market and rating agencies.

Together these factors are also taken into account in the process of identifying and assessing new and emerging risks.

- **Contingency plans**

The need for contingency plans is considered as part of the assessment of emerging risks and subsequently reviewed as part of the annual risk management review process.

- **Internal audit programme**

The internal audit plan is developed around PAMIA's objectives on an annual basis, using PAMIA's assessment of risks as recorded in the Business Risk Assessment. The planning for the internal audit programme takes into account the assessment by the Risk Officer of the design and operational effectiveness of the risk management process including controls. The work programme considers those controls in place to deal with operational and regulatory risks.

- **Statutory audit**

Statutory (external) audit provides an opinion on whether the financial statements give a true and fair view of the state of PAMIA's affairs at the year-end and of its surplus or deficit for the year just ended. External audit will also inform the Audit & Risk Committee of the operation of the internal financial controls reviewed as part of the annual audit and on the effectiveness of the internal audit.

- **Third party reports**

From time to time, the use of external consultants may be appropriate in areas such as health and safety or human resources. The use of specialist third parties for consulting and reporting can increase the reliability of the internal control system.

- **Risk-based reporting**

Risk-based reporting has been established throughout the business to maintain an aggregated view of the risk profile of the business, including identifying emerging risks and loss/near miss events. This ensures that business planning, decision making and operational processes are informed and responsive to change.

Material changes to existing risks, emerging or internal control failings or weaknesses, which require immediate action, are the subject of interim reporting and consideration at the appropriate forum, with remedial action implemented with immediate effect.

## **B.3. RISK MANAGEMENT SYSTEM (continued)**

### ***Risk Reporting Procedures***

Risk Owners hold management meetings every quarter. The management meetings present a formal opportunity to discuss risks and the effectiveness of controls, but discussions are held as required outside those meetings. Any amendments to the Business Risk Assessment proposed by Risk Owners are presented to PAMIA's Audit & Risk Committee at the first meeting following any amendment.

Risk Owners also identify Risk Events, which are reviewed by the Managers Management Committee, and then recorded on PAMIA's Risk Event Database with remedial actions identified for which a completion date is set. The financial consequences of loss events (including regulatory breaches) are also identified and whether the circumstances surrounding those events might give rise to a claim on the Managers' E&O policy.

The professional indemnity insurance for the Thomas Miller group of companies is purchased from Windsor Insurance Company Ltd, a wholly owned subsidiary of Thomas Miller Holdings. The limit of indemnity is £45m with a deductible of £10,000. Claims are dealt with in the Thomas Miller office in the Isle of Man.

The ORSA overview reports are provided to the Board annually or more frequently, as appropriate, giving information on PAMIA's recent performance and its risk profile whilst also providing consideration of business planning and scenario testing.

The various aspects of the Risk Management System have been described above. The Risk Management Function is fulfilled by PAMIA's Risk Officer who oversees risk management; provides independent challenge; and has direct access to the Chairman of the Audit & Risk Committee. The Risk Management Function maintains an organisation-wide and aggregated view of the risk profile of PAMIA, including monitoring risk tolerances against appetite, and advising on how risks might affect the business singly and in combination. Much of this work is done through stress testing and scenario analysis for the ORSA process in collaboration with the Actuarial Function. Responsibilities of the Risk Management Function are contained in PAMIA's Risk Management Framework.

The integration of risk management processes with business activities is performed through the requirement for business function heads who are also risk owners on the Business Risk Assessment to focus on risk management on an ongoing basis whilst ensuring that the risks for which they are responsible remain within risk tolerance. This demonstrates the proactive application of risk management techniques to support the business processes and decision-making for which they are responsible in their day-to-day insurance business activities.

In addition, there is a strong foundation of risk information available as described earlier in this section relating to, for example, the Business Risk Assessment, the risk matrix, the risk appetite statements and preferences and tolerances.

## **B.4. INTERNAL CONTROL SYSTEM**

Internal control is defined as a continually operating process effected by PAMIA's Board, the Managers, all staff and systems and designed to support PAMIA in achieving its business plan objectives through efficient and effective operations and to protect its resources.

Each Risk Owner, as named in the Business Risk Assessment, is responsible for the application of the Internal Control Framework and the design, development, implementation, documentation and maintenance of effective internal control processes in their area and reporting thereon.

### **Control activities**

Control activities are the actions taken or systems put in place to address business risks, protect assets and ensure that all material control failures and issues are identified and managed. The control activities are embedded into plans, policies, procedures, systems and business processes. Their effectiveness relies on the level of compliance by management and staff.

The nature of the controls implemented and the level of control exercised are based on the assessment of frequency and impact of the risk, PAMIA's risk appetite and the cost of implementing controls relative to the significance of the risk.

The following controls enforce the above:

- Policies and procedures
- Management information
- System embedded controls
- Premises and System security
- Segregation of duties
- Information processing
- Recruitment, performance management and training
- Contingency plans

The Internal Control Framework as a whole and internal control processes individually are monitored on an ongoing basis through the following mechanisms:

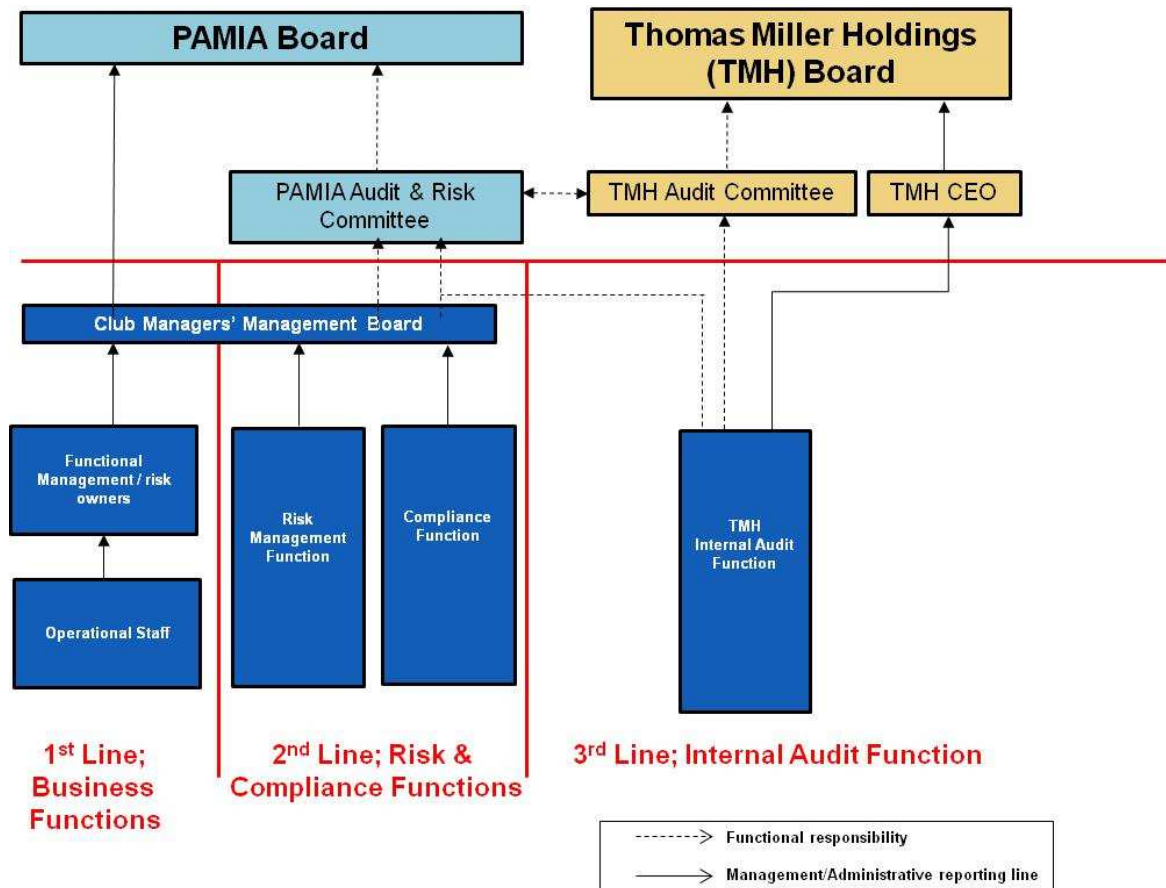
- Performance indicators
- External data
- Analyses and reconciliations
- Regulatory compliance monitoring audits
- Internal audits
- Procedure monitoring audits

# PAMIA LIMITED

## B.5. INTERNAL AUDIT FUNCTION

Internal Audit is the “third line of defence” in the Company’s internal control framework, established to provide independent assurance that the systems of internal control established by management (“first line”) and the monitoring and oversight provided by the Risk Management and Compliance Functions (“second line”) are fit for purpose and operating effectively.

This is illustrated by the diagram below:



The objectives of the Internal Audit Function are to provide independent assurance that business risks are identified and are being well mitigated and controlled by effective systems of internal control or other mechanisms

The Internal Audit function of the Company is provided by the Managers who employ an independent Head of Internal Audit (HIA) who reports functionally to the PAMIA Audit Committee, via its Chairman and administratively to the TMH Chief Executive Officer. The HIA may engage third parties to conduct some Audits under his/her management if it is felt that specific technical skills are required or where insufficient general audit resource is available.

## **B.5. INTERNAL AUDIT FUNCTION (continued)**

### **Independence**

The Internal Audit Function is independent from the organisational activities audited and free to exercise its assignments without impairment and on its own initiative in all areas. It is prohibited from carrying out any operational work on behalf of any area of any business.

### **Development of plans**

Audit Plans are developed by the Internal Audit Function on a rolling three-year basis, subject to annual review and approval by the Audit and Risk Committee and ongoing monitoring by the HIA who will advise the Committee when the revisions to the plan may be required. The plan is designed to provide for all significant areas of risk facing the business to be audited during each three-year period.

### **Planning**

The Internal Audit Function will prepare an Audit Planning Memorandum (“APM”) for each audit, which describes the scope of the Audit and the key risks to be addressed. There will be a formal opening meeting at which the appointed audit team will meet relevant line management to discuss the planned audit and agree the scope of work.

The finalised APM will be sent to relevant line management and copied to appropriate business executives who have an interest in the outcome of the Audit.

### **Execution**

The audit team is responsible for conducting the fieldwork including performing whatever control evaluation, substantive and compliance testing is deemed necessary. The Internal Auditor leading the assignment will discuss any findings as they arise with appropriate management to ensure that any misunderstandings or queries are dealt with as soon as possible.

An ‘end of fieldwork’ meeting will be held to confirm the factual accuracy of any control weaknesses identified during the course of the fieldwork and the recommended remedial action will be discussed at this meeting.

### **Reporting**

A comprehensive Internal Audit report will be produced following completion of every Audit engagement. This report will include a description of any control deficiencies identified as well as the actions that have been agreed to be implemented to remedy these.

The report will include the names of the individuals responsible for remedial action and the date by which such actions will be completed.

All Internal Audit reports will normally be given an overall control rating, which will be based on the severity of any individual control deficiencies identified.

The method of determining overall control rating for Audit reports and for individual control weaknesses is described in the ‘TMIA Framework’ which is the methodology used by the Internal Audit function.

## **B.6. ACTUARIAL FUNCTION**

The Company's Board is ultimately responsible for ensuring an effective Actuarial Function. This function is performed by the Thomas Miller Actuarial Team, led by its Chief Actuary.

The Actuarial Function is independent of the Company's management team and is therefore able to undertake its duties in an objective, fair and independent manner. However, for operational purposes, the Actuarial Function is integrated into the Company's internal control system through its interactions with the management team and attendance at meetings of the Board and Board committees.

The Actuarial Function undertakes all responsibilities as required by Solvency II, including:

- coordinating and overseeing the calculation of Solvency II technical provisions;
- ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- informing the Board of the reliability and adequacy of the calculation of technical provisions;
- expressing an opinion on the overall underwriting policy;
- expressing an opinion on the adequacy of reinsurance arrangements; and
- contributing to the effective implementation of the risk management system including capital requirements and the ORSA process.

## **B.7. OUTSOURCING**

PAMIA has in place an outsourcing policy, which is directed at services or activities, which are particularly important or critical to PAMIA's business (material business activities).

Material business activities include the Key functions of PAMIA's system of governance i.e. Risk Management, Compliance, Actuarial and Internal Audit, and all functions or activities that are fundamental to enable it to carry out its core business including underwriting, claims handling and investments.

A material business activity is one that has the potential, if disrupted, to have a significant impact on PAMIA's business operations or its ability to manage risks effectively.

### Management outsourcing

PAMIA has no internal executive function and its management is wholly, outsourced under a management agreement to Thomas Miller Professional Indemnity Limited (the 'Managers'), which is a wholly owned subsidiary of Thomas Miller.

In order to comply with its regulatory obligations, the Board has developed monitoring and reporting procedures. The risk control and reporting procedures to be followed by the Managers form part of their obligations under the management agreement.

## **B.7. OUTSOURCING (continued)**

### Investment management outsourcing

Management of PAMIA's investments is outsourced to Thomas Miller Investment Limited, which is part of the Thomas Miller group of companies, under an Investment Management Agreement.

The performance of the investment managers is reviewed by the Investment Committee at each of its meetings and the Board receives a report from the Investment Committee at every Board meeting.

### Internal audit outsourcing

PAMIA's internal audit function is outsourced to Thomas Miller & Co. Limited, which is part of the Thomas Miller group of companies, under a written services agreement. The Internal Auditor has a direct reporting line into the Audit & Risk Committee.

### Insurance Consultancy

Insurance Consultancy has been outsourced to Willis Towers Watson. There is a written agreement between PAMIA and Willis Towers Watson setting out Willis Towers Watson's responsibilities.

### Oversight

The Board bears ultimate responsibility for outsourced material business activities. The Board is supported by the Audit & Risk Committee, the Managers, the Risk Officer, the Compliance Director, the Internal Auditor and the Investment Manager, which monitors the activities of PAMIA, including outsourcing.

## **B.8. ANY OTHER INFORMATION**

The Company considers that there is no other material information to be disclosed.

## C. RISK PROFILE

The key areas of risk affecting the Company can be classified as follows:

- Underwriting Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

The Company has set out a number of risk appetite statements, which guide the implementation of its business plan.

The following sections consider each of the Company's risk categories. The key risks are Underwriting Risk and Market Risk.

### C.1. UNDERWRITING RISK

The Company's main objective is to remain the leading provider of professional indemnity insurance to patent and trade mark attorneys in private practice in the UK and Ireland. The Company covers individuals, limited liability partnerships and limited companies. The Company seeks to maintain a reputation for claims handling expertise, financial strength and excellent policy coverage.

Underwriting Risk is the risk that the Company's net insurance obligations (i.e. claims less premiums) are different to expectations. The Company considers the risk of existing obligations (Reserve Risk) separately to the risk of future obligations (Premium Risk). The Company uses reinsurance to manage its Underwriting Risk. However, the Company is exposed to the risk that the reinsurers do not pay the claims. This risk is covered under Credit Risk.

Reserve Risk is managed by the Company's Reserving Policy. Given the size and nature of the Company's business, there is not considered sufficient volumes of data to apply traditional actuarial and statistical methods to project future claims outcomes. As such, the claims reserves are determined based on an analysis of individual claims, incorporating knowledge of the business and claims environment.

Premium Risk is managed by the Company's Underwriting Policy, which establishes underwriting practices in order to meet business needs and satisfy regulatory control. This is supplemented with business planning and forecasting exercises undertaken as part of the Company's ORSA process.

#### Risk Mitigation

Underwriting Risk is mitigated by the Company's reinsurance programme. The Company currently has reinsurance cover relating to claims and settlement costs of £4,600,000 in excess of £400,000. This cover has free and unlimited reinstatements. The Company also has a whole account stop loss, which limits the total net cost in respect of the 2019 policy year to £2,150,000.



## C. RISK PROFILE (continued)

### C.2. MARKET RISK

Market Risk arises through fluctuations in equity values, interest rates, corporate bond spreads and foreign currency exchange rates. Such movements will affect not only the Company's investments, but also the value of other assets and liabilities such as claims payments and reinsurance recoveries.

The Company has an Investment Policy in place to manage exposure to its investments, and this is monitored by regular reports from the Investment Managers. Further discussion of this arrangement is provided below under the "prudent person principle".

The following table sets out a breakdown of the Company's assets as reported in the annual financial statements:

As at 30 June 2020	Total £'000
Fixed income	10,078
Equity & Alternatives	8,035
UCITS	2,304
Reinsurers share of claims outstanding	7,821
Cash at bank	2,262
Debtors arising from direct insurance	95
	<u>30,595</u>

The Company's Market Risk is dominated by Equity Risk. This is due to the Company investing 26% of its assets in equities and alternative investments.

The Company's Investment Mandate also allows investment in government and corporate bonds, exposing it to interest rate and spread movements. However, this risk is significantly smaller than that presented by the Company's equity exposure.

## C. RISK PROFILE (continued)

### C.2. MARKET RISK (continued)

#### The prudent person principle

Under the Company's Investment Policy, all of the Company's investments are invested and managed in accordance with the 'prudent person principle', meaning that duties of the Investment Managers are discharged with the care, skill, prudence and diligence that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and aims. More specifically:

- invested in assets and instruments whose risk can properly be identified, measured, monitored, managed, controlled and reported;
- to ensure the security, quality and liquidity of the portfolio as a whole;
- appropriate to the nature, currency and duration of the Company's insurance liabilities;
- derivative instruments are possible if they contribute to a reduction of risks or efficient portfolio management;
- unlisted investments and assets are kept to prudent levels; and
- properly diversified to avoid excessive reliance on any asset, issuer or group, or geographical area.

The Company's funds are invested by the Investment Managers in accordance with parameters set by an Investment Mandate. The Investment Mandate provides a framework to the Investment Managers for the management and stewardship of the Company's investment assets in conformity with the business and investment objectives and sets the parameters within which the Company's assets may be invested. It is considered and approved by the Board on a triannual basis and ad hoc as required and is subject to the Company's Investment Policy.

The Company's Investment Strategy also allows investment in government and corporate bonds, exposing it to interest rate and spread movements. However, this risk is significantly smaller than that presented by the Company's equity exposure.

# PAMIA LIMITED

## C. RISK PROFILE (continued)

### C.3. CREDIT RISK

Credit Risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

The following table illustrates aggregate credit risk exposure for financial assets as reported in the Company's annual financial statements. The credit rating bands are provided by independent ratings agencies:

As at 30 June 2020	AAA/AA/A	BBB or less or not rated	Total
	£'000	£'000	£'000
Fixed income	10,078	-	10,078
Equities & Alternatives	-	8,035	8,035
UCITS	-	2,304	2,304
Reinsurers share of claims outstanding	7,821	-	7,821
Cash at bank	-	2,262	2,262
Debtors arising from direct insurance	-	95	95
	<u>17,899</u>	<u>12,696</u>	<u>30,595</u>

As the Company's claims tend to be small, typically the Company is not exposed to significant reinsurance Counterparty Default Risk. However, if a large claim was to arise, the Company could have a significant reinsurance default exposure. The Company's objective is to reduce Credit Risk through risk management techniques, which are discussed below:

- The reinsurance contract is reviewed annually before renewal.
- Exposure to reinsurance counterparties is mitigated by the Company only placing reinsurances with counterparties which are rated 'A' or better.
- The Company limits any single placement to no more than 25% of the total cover.
- The Company requires reinsurance cover to be placed with a minimum of five reinsurers.
- The Company's exposure to default risk is evaluated as part of the ORSA process.

Exposure to debtors is mainly in respect of calls and premium contributions. This is spread over a number of Members and counterparties, which mitigates the risk.

Exposure to bank balances is more concentrated, with one main counterparty. This risk is mitigated by placing funds surplus to normal operational requirements in money market funds and other investments.

# PAMIA LIMITED

## C.4. LIQUIDITY RISK

Liquidity Risk is the risk that the Company is unable to make payments as they become due. This is managed by the use of liquid investments and minimum cash holdings required by the Company's Investment Strategy.

The following table provides a maturity analysis of the Company's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost as reported in the Company's annual financial statements:

As at 30 June 2020	Short	Within 1		Total
	term	year	2-5year	
	assets	£'000	£'000	£'000
Fixed income	3,109	2,466	4,504	10,078
Equities & Alternatives	8,035	-	-	8,035
UCITS	2,304	-	-	2,304
Reinsurers share of claims outstanding	-	7,821	-	7,821
Cash at bank	2,262	-	-	2,262
Debtors arising from direct insurance	-	95	-	95
Other	-	-	-	-
	<u>15,710</u>	<u>10,382</u>	<u>4,504</u>	<u>30,595</u>

### Reliance on expected future profit

As the Company is a mutual insurer, it does not aim to make "profit" from its activities. However, surpluses or deficits may arise in the course of its operations due to actual experience being different to expectations.

Given the holding in liquid assets, the Company does not rely on expected future surpluses to ensure its liquidity.

The Company's Solvency II balance sheet as at 30 June 2020 recognises expected future premium of £121k from Members in its technical provisions in respect of outstanding premium income for the 2020 policy year. Comparing this to the corresponding expected claims outcome, reinsurance costs and associated expenses, this premium is expected to produce a gross surplus of £32k. However, it should be noted that the Solvency II balance sheet does not reflect all future cash flows and the expected surplus (if any) over the year arising from this premium would be lower than this.

## C.5. OPERATIONAL RISK

Operational Risk relates to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Company has engaged Thomas Miller Limited as Managers to document all key processes and controls. This documentation is embedded into the organisation and available to all staff. Compliance with the procedures and controls is audited on a regular basis through the Internal Audit Function, which is directed and reviewed by the Board.

The Company is also protected against operational losses by the Thomas Miller Managers' E&O cover.

## **C.6. OTHER MATERIAL RISKS**

The Company has not identified any other material risk that it considers necessary for disclosure.

## **C.7. STRESS AND SCENARIO TESTING-**

The Company carries out stress and scenario testing as part of its risk management and ORSA process. This is based upon the Company's business plan, projects the Company's financials over the next 3 years, and considers its solvency position relative to its overall risk appetite statement. The Company's latest ORSA report as at February 2020 included consideration of the following scenarios:

- Catastrophe claims scenario
- Investment assets loss
- Large increase to expenses
- Loss of a number of large members
- Claims deteriorations
- Investment loss arising from climate-related risks

Following the Covid-19 outbreak, the Company prepared an addendum to the February 2020 ORSA report, which included additional Covid-19 related scenarios:

- Reduction in premium income
- Further deterioration in investment conditions

Under each of the scenarios, the Company would still be able to meet its regulatory capital requirements.

## **C.8. CONCENTRATION OF RISK**

The Company writes large limits and therefore is in theory exposed to a concentration of risk from related claims. This risk is partly mitigated by the Company's reinsurance programme, which includes unlimited reinstatements at the individual claim level and limits the total net cost to the Company for the policy year.

## **C.9. ANY OTHER INFORMATION**

The Company has not identified any other material information that it considers necessary for disclosure.

# PAMIA LIMITED

## D. VALUATION FOR SOLVENCY PURPOSES

### D.1. ASSETS

Valuation of the Company's assets (excluding technical provisions) as at 30 June 2020 in GBP £'000's:

	Solvency II	UK GAAP
Investments (other than assets held for index linked and unit-linked contracts)	20,240	20,417
Insurance and intermediaries receivables	2	2
Reinsurance receivables	-	-
Cash and cash equivalents	2,461	2,262
Any other assets not elsewhere shown	93	93
<b>Total</b>	<b>22,796</b>	<b>22,775</b>

The above table presents amounts at Solvency 2 and UK GAAP valuation basis respectively. For classification purposes, the Solvency 2 classification of amounts has been used. Refer to appendix S.02.01.02 for a full Solvency II balance sheet amounts.

The Company's assets are valued using the following principles:

#### *Investments*

Investments are carried at market value. Market value is calculated using the bid price at the close of business on the balance sheet date. The market value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date.

Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

There was a £177k difference between the valuation used for Solvency purposes and the valuation used in the Company's financial statements; this was due to a re classification of assets valuation basis. The overall value of assets under both basis remain the same.

## **D. VALUATION FOR SOLVENCY PURPOSES (continued)**

### **D.1. ASSETS (continued)**

#### *Insurance and intermediaries' recoverables*

These represent balances that are due for existing insurance contracts. Due to the short-term nature of these balances, the carrying amount is considered a suitable proxy for its fair value.

When these amounts are not yet due, they are included as a future cash flow in the calculation of technical provisions.

These amounts are reviewed annually for impairment.

Under statutory accounting requirements, these balances are presented separately on the face of the balance sheet whether they are due or not yet due.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash at bank or in hand, deposits held at call with banks and other short-term highly liquid investments. The carrying value of these balances is considered a suitable proxy for fair value.

There was a difference of £199k between the valuation used for Solvency purposes and the valuation used in the Company's financial statements; this was due to a re-classification of assets valuation basis. The overall value of assets under both basis remain the same.

#### *Any other assets not elsewhere shown*

These balances comprise sundry, short-term receivables, which are classified as sundry receivables in the statutory financial statements.

Due to the short-term nature of these balances, their carrying amount is considered a reasonable approximation for fair value.

There is no material differences between the valuation used for Solvency purposes and the valuation used in the Company's financial statements.

# PAMIA LIMITED

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## D. VALUATION FOR SOLVENCY PURPOSES (continued)

### D.2. TECHNICAL PROVISIONS

Net technical provisions as at 30 June 2020:

	£'000
Gross best estimate	14,663
Reinsurance best estimate	(7,186)
Risk Margin	430
Net technical provisions	<u>7,906</u>

Refer to appendices S.17.01.02 and S.19.01.21 for details on technical provisions.

The Company's technical provisions are valued using the following principles:

#### *Bases, methods and main assumptions*

The technical provisions are valued using the methodology prescribed by the Solvency II Directive and associated regulations. They consist of a "best estimate" of future cash flows (claims, premiums and expenses), which are discounted in line with risk-free interest rates to give the "present value" of those cash flows. Finally, a (market value) "risk margin" is added to take the total to a notional market value (i.e. equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations).

The calculation of the different elements of the technical provisions is discussed below.

#### *Claims*

As the Company only offers professional indemnity cover for patent and trademark attorneys, all claims are analysed together in one risk group. Given the size and nature of the Company's business, there are relatively few claims. Therefore, the claims reserves are set based on an analysis of individual claims, incorporating knowledge of the business and claims environment.

Allowance is also made for claims corresponding to the premium provision. These are valued based on the Company's business plan. The key assumptions relate to the expected future claims costs.

The future claims cash flows are the most uncertain element of the technical provisions. The uncertainty involved was discussed in section C.1 on Underwriting Risk.

#### *Premiums*

The premium cash flows in the technical provisions cover the premium payable but not yet due on bound but not incepted business (corresponding to the premium provision).



## **D.2. TECHNICAL PROVISIONS (continued)**

### *Expenses*

The technical provisions include expense cash flows incurred in servicing insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. The provision is calculated directly in respect of the provision for claims outstanding (for expired business) and a corresponding amount is derived in respect of the premium provision (for bound but not incepted business).

### *Risk margin*

The risk margin is calculated based on the requirement to hold capital to meet the Solvency Capital Requirement until all claims liabilities are settled and a prescribed cost-of-capital rate of 6% per annum. This calculation is based on the assumption that a “reference undertaking” takes on the insurance obligations (and associated reinsurance arrangements). The Solvency Capital Requirement in this context is made up of Underwriting Risk, Counterparty Default Risk and Operational Risk only; assets are assumed to be invested in such a way that Market Risk will be zero. The Solvency Capital Requirements in future time periods have been calculated based on the expected run-off of Underwriting Risk and Operational Risk and assuming Counterparty Default Risk runs off in line with the run-off of the best estimate reinsurance recoverables.

### *Reinsurance recoverables*

This relates to the Company’s expected recoverables from its reinsurance arrangements at the valuation date. It is made up of two elements: reinsurance recoveries and reinsurance premiums. These are valued on a consistent basis with the corresponding claims and premiums elements of the technical provisions. In addition, an adjustment is made to take account of expected losses due to default of the reinsurance counterparties.

### *Uncertainty in the technical provisions*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company’s most critical estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

In particular, the following represents the main sources of uncertainty that may impact the outcome of the Company’s technical provisions:

- There is a risk that any legal changes in, for example, the handling of claims, may affect the average cost per claim. Similarly, regulatory changes could potentially affect the claims reserves.
- New and unexpected claim types could impact the reserving methodology. This is partly allowed for in the Company’s provision for events not in data.
- Claims arising from circumstances at later stages of development compared to what has been seen in previous years.

# PAMIA LIMITED

## D. VALUATION FOR SOLVENCY PURPOSES (continued)

### D.2. TECHNICAL PROVISIONS (continued)

#### *Differences between GAAP and Solvency II technical provisions*

A reconciliation of UK GAAP technical provisions to Solvency II technical provisions is provided below:

	Note	Gross £'000	RI £'000	Net £'000
<b>UK GAAP technical provisions</b>		12,570	7,821	4,749
Eliminate unearned premium reserve	1	-	-	-
Adjustment to expense reserve	2	670	-	670
Provision for contracts bound but not incepted	3	1,128	(829)	1,957
Events not in data	4	294	196	98
Reinsurance counterparty default adjustment	5	-	(3)	3
Effects of discounting	6	-	1	(1)
Technical provisions before risk margin		14,663	7,186	7,476
Risk margin	7	430	-	430
<b>Total Solvency II technical provisions</b>		<b>15,093</b>	<b>7,186</b>	<b>7,906</b>

#### Notes

##### *1. Eliminate unearned premium reserve*

The Solvency II balance sheet contains no concept of premium earning, and therefore, any such balances are eliminated upon transition to the Solvency II balance sheet. These balances are replaced by a provision for future cash flows expected on unexpired business as further discussed in 4 below.

##### *2. Adjustment to expense reserve*

Unlike UK GAAP, Solvency II recognises all expense cash flows incurred in serving insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. As such, an adjustment is made.

## **D. VALUATION FOR SOLVENCY PURPOSES (continued)**

### **D.2. TECHNICAL PROVISIONS (continued)**

#### *3. Provision for contracts bound but not incepted*

Solvency II valuation methodology requires contracts to be recognised when the insurer becomes party to the insurance contract. Usually, an undertaking becomes a party to the contract when the contract between undertaking and policyholder is legally formalised.

Nearly all of the Company's policies are coterminous with its financial year. The consequence is that nearly a full year's worth of business is recognised as Bound But Not Incepted ("BBNI") business. A provision on the Solvency II balance sheet, known as the "premium provision", is thus made for future premiums, claims and expenses that relate to BBNI business.

#### *4. Events not in data*

Solvency II requires that all possible outcomes be allowed for when setting the technical provisions. Therefore, an additional provision needs to be made for "events not in data", i.e. potential adverse claims outcomes that have not been observed to date and hence are not taken into account in assessing the claims provisions.

#### *5. Reinsurance counterparty default adjustment*

For the Solvency II balance sheet, amounts recoverable from reinsurance counterparties must be adjusted for the expected losses due to counterparty default. This adjustment approximates the expected present value of the losses in the event of default, weighted by the probability of default for each counterparty. Under current accounting bases, a provision for bad debts is only made where there is objective evidence that a counterparty may default on its obligation.

#### *6. Effects of discounting*

Since Solvency II technical provisions take into account the time value of money, an adjustment is made for the discounting of all future cash flows, based on risk-free interest rates.

#### *7. Risk Margin*

The Solvency II risk margin is intended to represent a notional market value adjustment as discussed above.

# PAMIA LIMITED

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## D.3. OTHER LIABILITIES

Valuation of the Company's other liabilities as at 30 June 2020

	Solvency II £'000	UK GAAP £'000
Payables (trade, not insurance)	415	165
Reinsurance payables	-	-
Any other liabilities not shown elsewhere	71	2,537
	<u>486</u>	<u>2,702</u>

### *Payables (trade, not insurance)*

These represent balances payable other than on insurance contracts. Due to the short-term nature of these balances, the carrying amount is considered a suitable proxy for fair value.

There are no material differences between the valuation used for Solvency II purposes and the valuation used in the Company's financial statements.

### *Reinsurance payables*

These represent balances that are due to be paid for existing reinsurance contracts. When these amounts are not yet due to be paid, they are included as a future cash flow in the calculation of reinsurance technical provisions.

Under statutory accounting requirements, these balances are presented separately on the face of the balance sheet whether they are due or not yet due.

### *Any other liabilities not elsewhere shown*

These balances include all sundry payables and accruals. Due to the short-term nature of these balances, the carrying amount is considered a suitable proxy for fair value.

The main difference between the valuation used for Solvency II purposes and the valuation used in the Company's financial statements is the removal of the provision for contributions received in advance of £2.3 million in UK GAAP.

## D.4. ALTERNATIVE METHODS OF VALUATION

The Company does not utilise any alternative methods of valuation.

## D.5. ANY OTHER INFORMATION

The Company has not identified any other information that it considers material to be disclosed.

# PAMIA LIMITED

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## E. Capital Management

### E.1 Own funds

	2020
	£'000
SCR ratio	313%
SCR	4,591
Eligible capital	<u>14,382</u>
Excess / (shortfall)	9,791
MCR Ratio	451%
MCR	3,187
Eligible capital	<u>14,382</u>
Excess / (shortfall)	11,195
Tier 1 Basic own funds	<u>14,382</u>

As a mutual insurer with no share capital the Company's capital structure consists of two types of own funds:

1. Accumulated income and expenditure account reserve and reconciliation reserve, which falls under Tier 1 and counts as Basic Own Funds ("BOF"). These funds may be fully utilised to meet both the Solvency Capital Requirement ("SCR") and the Minimum Capital Requirement ("MCR").
2. The Company's Rules allow for Basic and Supplementary contributions from members. The Company's practice is to defer collection of some element of the Basic Contribution called premium deferral. The Company retains its right to call upon the premium so deferred. Once they had been received they would become Tier 1 loss absorbent BOF and therefore count as Tier 2 Ancillary Own Funds for regulatory solvency purposes.

The Company has not applied for to the PRA for approval of the methodology to calculate ancillary own funds ("AOF").

#### *Information, objectives, policies and processes for managing own funds*

The Company's objective is to maintain its total capital resources (own funds) in line with its risk appetite statement over the insurance cycle. This would mean that the capital resources exceed the Company's regulatory requirements. The Company forecasts its capital over a 3-year planning horizon.

# PAMIA LIMITED

## E. Capital Management (continued)

### E.1 Own funds (continued)

*Material differences between equity as shown in the financial statements and the excess of assets over liabilities*

Below represents a reconciliation of UK GAAP reserves to Solvency II equity reserves.

	2020 £'000
<b>UK GAAP reserves</b>	<b>15,324</b>
Solvency II gross technical provisions adjustment	(2,522)
Accruals and deferred income adjustments	2,216
Solvency II RI technical provisions adjustment	(635)
<b>Total Solvency II basic own funds</b>	<b>14,382</b>

The two most material adjustments to reserves are as a result of the differences in valuation of technical provisions and reallocation of contributions received in advance to Solvency II technical provisions since these represent future cash flows received that relates to BBNI business. Refer to D.1 to D.3 for a discussion of the differences between the bases.

### E.2 Solvency Capital Requirement and Minimum Capital Requirement

The table below sets out the capital requirements for the Company for the year ended 30 June 2020 and period ended 30 June 2019 for comparison.

	2020 £'000	2019 £'000
SCR	<b>4,591</b>	<b>5,642</b>
<u>Made up of</u>		
Underwriting Risk	2,128	2,309
Market Risk	2,891	3,996
Counterparty Default Risk	326	310
Operational Risk	440	413
Diversification effects	(1,193)	(1,386)
<b>MCR</b>	<b>3,187</b>	<b>3,288</b>

The SCR has been calculated using the Solvency II Standard Formula. It is not subject to supervisory assessment, but it is subject to external audit. The Company does not use any simplifications or undertaking specific parameters to calculate the SCR.

The main risks that drive the SCR are Underwriting Risk and Market Risk. Underwriting Risk stems from the insurance risk that the Company assumes through the course of its normal business activities. Market Risk stems from the Company's investment holdings.

The SCR has decreased from £5.6m to £4.6m over the year, a decrease of £1.0m. This is driven by a reduction in equity risk. The decrease in equity risk is due to a lower amount being held in equities and alternatives compared to the previous year-end as well as a reduction in the symmetric adjustment (the mechanism to allow for the current position of equity markets).

## **E. Capital Management (continued)**

The inputs used to calculate the Company's MCR can be found in appendix S.28.01.01.

### **E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement**

This sub-module is not used by the Company.

### **E.4 Differences between the standard formula and any internal model used**

The Company uses the Standard Formula for its Solvency Capital Requirement.

### **E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement**

The Company has fully complied with the Minimum Capital Requirement and Solvency Capital Requirement during the period under review.

Refer to section E.1 for results of the Minimum Capital Requirement and Solvency Capital Requirement calculations.

### **E.6 Any other information**

The Company considers there to be no other material information that should be disclosed.

# PAMIA LTD

## Solvency and Financial Condition Report

### Disclosures

30 June

**2020**

(Monetary amounts in GBP thousands)



## General information

Undertaking name	PAMIA LTD
Undertaking identification code	21380051Z441WURQUT86
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	30 June 2020
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

## List of reported templates

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

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Assets</b>		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	20,240
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	964
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	964
R0130	<i>Bonds</i>	10,078
R0140	<i>Government Bonds</i>	10,078
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	9,196
R0190	<i>Derivatives</i>	1
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	7,186
R0280	<i>Non-life and health similar to non-life</i>	7,186
R0290	<i>Non-life excluding health</i>	7,186
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	2,461
R0420	Any other assets, not elsewhere shown	93
R0500	<b>Total assets</b>	<b>29,983</b>

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	15,093
R0520	<i>Technical provisions - non-life (excluding health)</i>	15,093
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	14,663
R0550	<i>Risk margin</i>	430
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	22
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	415
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	71
R0900	<b>Total liabilities</b>	15,601
R1000	<b>Excess of assets over liabilities</b>	14,382

5.05.01.02

Premiums, claims and expenses by line of business

Non-life

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total				
Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property					
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200				
<b>Premiums written</b>																				
R0110	Gross - Direct Business																	3,188		
R0120	Gross - Proportional reinsurance accepted																			0
R0130	Gross - Non-proportional reinsurance accepted																			0
R0140	Reinsurers' share																		1,093	
R0200	Net																		2,095	
<b>Premiums earned</b>																				
R0210	Gross - Direct Business																		2,420	
R0220	Gross - Proportional reinsurance accepted																			0
R0230	Gross - Non-proportional reinsurance accepted																			0
R0240	Reinsurers' share																		1,093	
R0300	Net																		1,327	
<b>Claims incurred</b>																				
R0310	Gross - Direct Business																		1,126	
R0320	Gross - Proportional reinsurance accepted																			0
R0330	Gross - Non-proportional reinsurance accepted																			0
R0340	Reinsurers' share																		1,365	
R0400	Net																		-238	
<b>Changes in other technical provisions</b>																				
R0410	Gross - Direct Business																			0
R0420	Gross - Proportional reinsurance accepted																			0
R0430	Gross - Non-proportional reinsurance accepted																			0
R0440	Reinsurers' share																		0	
R0500	Net																		0	
R0550	Expenses incurred																		1,657	
R1200	Other expenses																		-33	
R1300	Total expenses																		1,624	

## S.05.02.01

## Premiums, claims and expenses by country

## Non-life

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
R0010							
	<b>Premiums written</b>						
R0110	3,188						3,188
R0120							0
R0130							0
R0140	1,093						1,093
R0200	2,095						2,095
	<b>Premiums earned</b>						
R0210	2,420						2,420
R0220							0
R0230							0
R0240	1,093						1,093
R0300	1,327						1,327
	<b>Claims incurred</b>						
R0310	1,126						1,126
R0320							0
R0330							0
R0340	1,365						1,365
R0400	-238						-238
	<b>Changes in other technical provisions</b>						
R0410							0
R0420							0
R0430							0
R0440							0
R0500	0						0
R0550	1,657						1,657
R1200							-33
R1300							1,624

Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligation	
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance		Non-proportional property reinsurance
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010 <b>Technical provisions calculated as a whole</b>								0									0
R0050 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
<b>Technical provisions calculated as a sum of BE and RM</b>																	
<b>Best estimate</b>																	
<b>Premium provisions</b>																	
R0060 Gross								1,599									1,599
R0140 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								-829									-829
R0150 <b>Net Best Estimate of Premium Provisions</b>								2,428									2,428
<b>Claims provisions</b>																	
R0160 Gross								13,064									13,064
R0240 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								8,016									8,016
R0250 <b>Net Best Estimate of Claims Provisions</b>								5,048									5,048
R0260 <b>Total best estimate - gross</b>								14,663									14,663
R0270 <b>Total best estimate - net</b>								7,476									7,476
R0280 <b>Risk margin</b>								430									430
<b>Amount of the transitional on Technical Provisions</b>																	
R0290 Technical Provisions calculated as a whole																	0
R0300 Best estimate																	0
R0310 Risk margin																	0
R0320 <b>Technical provisions - total</b>								15,093									15,093
R0330 <b>Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total</b>								7,186									7,186
R0340 <b>Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total</b>								7,906									7,906

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year

Gross Claims Paid (non-cumulative)														
(absolute amount)														
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
	Development year											In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +			
R0100	Prior											0	0	
R0160	2011	110	3	170	0	0	0	12	1	22		22	319	
R0170	2012	40	37	84	282	22	0	0	0			0	465	
R0180	2013	90	141	106	259	45	107	222	702			702	1,672	
R0190	2014	137	156	393	0	0	0	0				0	686	
R0200	2015	16	7	5	30	0	39					39	97	
R0210	2016	8	43	156	0	1						1	207	
R0220	2017	20	52	41	14							14	128	
R0230	2018	80	7	0								0	87	
R0240	2019	7	37									37	45	
R0250	2020	7										7	7	
R0260		Total											822	3,713

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
	Development year											Year end (discounted data)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	
R0160	2011	0	0	0	0	0	38	44	47	280		280	
R0170	2012	0	0	0	0	0	0	0	0			0	
R0180	2013	0	0	0	0	2,156	5,186	4,924	5,721			5,719	
R0190	2014	0	0	0	405	5	0	0				0	
R0200	2015	0	0	2,221	1,081	1,104	1,041					1,042	
R0210	2016	0	1,035	889	578	579						579	
R0220	2017	1,807	1,497	975	2,393							2,396	
R0230	2018	1,484	2,960	446								446	
R0240	2019	1,696	1,248									1,249	
R0250	2020	1,352										1,352	
R0260		Total											13,064





S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

R0010 Market risk  
 R0020 Counterparty default risk  
 R0030 Life underwriting risk  
 R0040 Health underwriting risk  
 R0050 Non-life underwriting risk  
 R0060 Diversification

R0070 Intangible asset risk

R0100 **Basic Solvency Capital Requirement**

**Calculation of Solvency Capital Requirement**

R0130 Operational risk  
 R0140 Loss-absorbing capacity of technical provisions  
 R0150 Loss-absorbing capacity of deferred taxes  
 R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC  
 R0200 **Solvency Capital Requirement excluding capital add-on**  
 R0210 Capital add-ons already set  
 R0220 **Solvency capital requirement**

**Other information on SCR**

R0400 Capital requirement for duration-based equity risk sub-module  
 R0410 Total amount of Notional Solvency Capital Requirements for remaining part  
 R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds  
 R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios  
 R0440 Diversification effects due to RFF nSCR aggregation for article 304

**Approach to tax rate**

R0590 Approach based on average tax rate

**Calculation of loss absorbing capacity of deferred taxes**

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

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
2,891		
326		
0		
0		
2,128		
-1,193		
0		
4,151		
<b>C0100</b>		
440		
0		
0		
0		
4,591		
0		
4,591		
<b>C0109</b>		
0		
<b>LAC DT</b>		
<b>C0130</b>		
0		
0		
0		
0		
0		

**USP Key**

**For life underwriting risk:**

- 1 - Increase in the amount of annuity benefits
- 9 - None

**For health underwriting risk:**

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

**For non-life underwriting risk:**

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

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR<sub>NL</sub> Result

C0010

1,044
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Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020

C0030

- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

0	
0	
0	
0	
0	
0	
0	
0	
7,476	2,095
0	
0	
0	
0	
0	
0	
0	
0	

Linear formula component for life insurance and reinsurance obligations

R0200 MCR<sub>L</sub> Result

C0040

0
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Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
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C0050

C0060

- R0210 Obligations with profit participation - guaranteed benefits
- R0220 Obligations with profit participation - future discretionary benefits
- R0230 Index-linked and unit-linked insurance obligations
- R0240 Other life (re)insurance and health (re)insurance obligations
- R0250 Total capital at risk for all life (re)insurance obligations


Overall MCR calculation

- R0300 Linear MCR
- R0310 SCR
- R0320 MCR cap
- R0330 MCR floor
- R0340 Combined MCR
- R0350 Absolute floor of the MCR
- R0400 Minimum Capital Requirement

C0070

1,044
4,591
2,066
1,148
1,148
3,187
3,187