health shield

The best of health

Health Shield Friendly Society Ltd

Solvency & Financial Condition Report (SFCR)

For the year ended 31 December 2018

Contents

Executive summary

The purpose of this report

This report is produced by the Health Shield Friendly Society (HSFS) in line with its obligations under Solvency II. HSFS is the sole insurance entity within the Society's structure and is therefore the focus of this report.

This Solvency and Financial Condition Report (SFCR) provides information about our financial strength and other key messages about how we manage our business. It covers the year ending 31 December 2018.

The key messages in this report are:

Our Market Outlook

- Our core product continues to be Health Cash Plans for which the market has remained relatively static. A slight fall in the individual business has been countered by a rise in employer paid group business. However, our outlook for the market is positive and we have been able to demonstrate significant growth over a number of years, reflected in growth in premium income to over £44m, the highest in the Society's history.
- Pricing in the market remains competitive and along with potential for increases in Insurance Premium Tax will remain a major challenge for the Society in the immediate future.

Our Financial Strength

- We have £39.2m in excess assets over liabilities; this is known as Own Funds (2017: £44.2m). This means that we are exceptionally strong financially with a 390% coverage of our Solvency Capital Requirement (SCR). The SCR is the amount of capital that the PRA requires to be held to cover all significant risks under Solvency II.
- The key elements which gave rise to the reduction in Own Funds compared to 2017 were: a reduction in investment income and gains, significant investment in infrastructure and continued high levels of claims returns to members.

Our Governance

- We have strong internal governance structures, including a robust three lines of defence. We will continue to invest in developing and growing our business and our people.

A. Business and performance

A.1 Business

A.1.1 Name and legal form

Health Shield Friendly Society Ltd is a directive Friendly Society, incorporated under the Friendly Societies Act 1992 (register number 50F). Health Shield is a regulated financial services firm, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

The address of Health Shield's registered office is:

Electra Way
Crewe Business Park
Crewe
CW1 6HS

A.1.2 Supervisory authority details

The name and contact details of the supervisory authorities responsible for the supervision of Health Shield are:

PRA	FCA
20 Moorgate, London EC2R 6DA	25 The North Colonnade, London E14 5HS

A.1.3 Legal structure and internal organisation

Health Shield was incorporated on 1 January 2000 and has, at the time of writing, just over 343,000 members. Health Shield's core business is the provision of health cash plans in the UK to individuals, corporate clients and their employees. Health Shield offers its product on a retail, non-advised basis.

The Society has three direct subsidiaries:

- Health Shield Wellbeing Limited; a company set up to enable the Society to offer its stakeholders access to non-insurance, health related products, which itself has a subsidiary, Prevent Ltd trading as Health Shield;
- Medex Protect Limited, which is authorised and regulated solely by the FCA as an insurance intermediary; and
- Health Shield Insurance Services Limited, which is dormant.

These subsidiaries have been formed to enable the Society to diversify its product range into related health and well-being products, which complement the Society's core business.

As a UK-regulated financial services company, Health Shield must comply with all applicable sections of the FCA handbook and the PRA rulebook; the rules contained therein having been established by the Financial Services & Markets Act 2000 and the Financial Services Act 2012.

As at 31 December 2018, Health Shield had 166 full time equivalent employees.

Internal Board structure

The Society conducts its business under the direction and management of the Board. The Board is collectively responsible for the long-term success of the Society with an overarching aim of safeguarding members' interests.

The Board operates within the regulatory provisions and guidance issued by the FCA and the PRA.

Annual General Meeting

The Society is governed by the Annual General Meeting ("AGM") of the Society, which is composed of delegates from the membership. Every member is eligible to be a delegate at the AGM. Prior to the AGM, representatives of the Board hold a series of area meetings with the prospective delegates to provide an update on the Society's current position and the Society's future plans. It also receives feedback from the members on areas that they feel could be improved. Each area meeting can appoint up to twenty-five Delegates to attend the AGM.

A.1.4 External auditor of the undertaking

The independent auditors of Health Shield are:

- Deloitte LLP
- Statutory Auditor
- Manchester

A.1.5 Market position

The Society has used the Laing & Buisson Health Cover UK Market Report (Laing & Buisson) published in October 2018 and based on the health cover market up to the end of 2017, as a basis to determine its market position and understand market trends.

Market summary

The health cash plan market is highly competitive and most providers are 'not for profit' insurers. There are 16 'not for profit' and 10 'for profit' providers in the market. Of these 26 providers, 11 also offer private medical insurance and other protection products.

Market trends

Laing & Buisson indicates that the volume of demand for health cash plans in the UK had moderately increased by the end of 2017 after a marginal decrease in the previous year, indicating a broadly a static market.

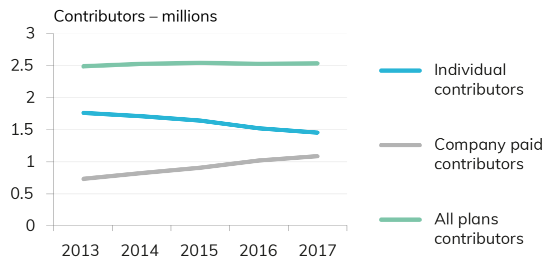
The growth area within the sector is the corporate, company paid sector, with a rise of 3.7% in group schemes on the previous year.

As a percentage of the cash plan sector, company paid policies account for 42.7% of total demand. Voluntary or individual paid policies represent 57.3% of total demand, having fallen 4.1% since the previous year.

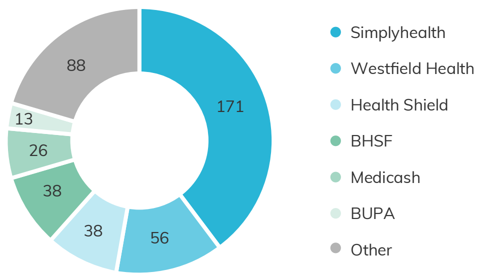
Penetration across the UK has continued to fall as a percentage of the population. It had reduced to 5.1% at the end of 2017 (from 5.2% in 2016) compared with 7.6% in 2007.

There remains scope for growth in both the company and voluntary segments of the industry, by developing new and existing distribution channels.

Health cash plan market contributors



Health cash plan market share 2017 (£m)



Health Shield has achieved significant growth over the last 10 years and has increased its premium income and market share during this period and the Board expects this level of growth to continue in the short to medium term. In 2005, the Society's market share stood at 3.6%. By the end of 2017, this had increased to 8.8% and the Society occupied joint third place, with the BHSF Group, for Health Cash Plan providers by premium income.

The top two providers by premium income remained unchanged in 2017. The Society requires significant growth in market share to equal the second place provider, Westfield Health, who have £56m turnover and 13.1% market share. Simply Health remains the clear market leader with £171m turnover and a 40% share, although this is down on their 2016 results where they reported £181m turnover and a 41.9% share.

A.1.6 Sales and operations

Sales and marketing

The Society has evolved and adapted to changes in the competitive environment and the demands of its stakeholders. It was identified that distribution channels needed to be reviewed and aligned with the latest Business Plan and this review was on-going at year end. The Marketing function's capacity and scope was increased during the year, which included the appointment of a Product Development Manager.

In terms of product distribution, intermediaries have continued to maintain their market presence, offering a health cash plan proposition to their corporate customers, in addition to and complementing their customers' PMI needs. The Society is responsive to and engaged with the intermediary market.

Digital transformation

The Society has continued to invest in its systems and staff, underlying this is the need to control expenses over the long-term and deliver a group wide breakeven position. The process includes developing hardware infrastructure and software applications to improve efficiency and future proof operations. This is being delivered through transforming the Society's business model; moving to a digital operating model fundamentally changes how the Society will deliver its long-term objectives.

A.1.7 Significant business events during the reporting period

In early 2018 the Society sadly lost its Chief Executive after a short period of illness. The Society's Commercial Director, Courtney Marsh, was formally appointed as Chief Executive after a short period as interim and following regulatory approval.

In 2018 the Executive and Senior Management team developed a new strategic direction for the Society with a Health and Wellbeing focus and a brand review was initiated, the latter being on-going at end of the year. The Board approved the new strategy and accompanying five-year business plan, this process contained two full ORSA Reports being delivered.

During discussion with the regulators (PRA) it was established that it was appropriate for the Society to consider changes to its regulatory permissions. The review will continue during 2019. In addition, the Society also obtained insurance mediation permissions to allow its Sales function to act as introducers for the Medex insurance product.

Integration of both Prevent Ltd and Medex Protect Ltd have been on-going during 2018 and will be completed during 2019.

A.2 Underwriting performance

The table below shows the revenue account for the period ended 31 December 2018.

£000s	2018	2017
Gross premiums	44,762	41,270
Insurance premium tax	(4,720)	(3,851)
Reinsurer's share	(30)	(25)
Claims costs	(31,745)	(30,304)
Reinsurer's share of claims	0	0
Expenses including commission	(13,019)	(11,419)
Changes in other technical provisions	1,338	(2,018)
Other income	(952)	3,271
Surplus / (deficit)	(4,366)	(3,076)

The Society's performance was driven by the following:

- For the 18th consecutive year, premium income has increased. Gross premium income has risen to over £44 million, the highest level in the Society's history. This has been achieved entirely through organic growth and an ongoing investment in the Society's staff and IT infrastructure.
- Continued competitive pricing, along with ongoing increases in Insurance Premium Tax, will remain major challenges for the Society in the immediate future.
- The Society's expense ratio has increased slightly during the year due to increased renewal commissions and the commencement of investment into the Society's new strategy.
- The decrease in technical provisions over the year has been driven by a combination of changes in the membership profile, including premiums and benefit levels, a reduction in allowance for future renewal commission and changes to claims inflation and premium increases.
- The Society has one small reinsurance contract that covers multiple personal accident claims arising from one incident. No claims were recovered from this policy in 2018

The Society's approach to mitigating underwriting risk is described within section C and its Own Risk and Solvency Assessment (ORSA).

A.3 Investment performance

A.3.1 Income and expenses arising from investments by asset class

At 31 December 2018, the assets invested by the Society fell into the following classes:

£000s	2018	2017
Government bonds	7,944	10,155
Corporate bonds	10,922	11,520
Equities	6,578	7,935
Investment funds	9,916	12,220
Property	2,477	2,425
Related undertakings	531	77
Total	38,368	44,332

Data includes accrued interest not included in the statutory accounts.

At 31 December 2018, the income receivable from investments, together with the realised and unrealised gains/losses, was as follows:

£000s	2018	2017
Income	1,038	1,296
Realised gains	1,009	1,878
Unrealised gains/(losses)	(2,999)	97
Total	(952)	3,271

The level of investment income fell in 2018 as compared to 2017 due to poor market performance, this can be seen in the unrealised gains and losses which represent the movement in the Society's holdings.

The Society paid its Investment Managers, Investec Wealth & Investment, £125k during 2018 to manage its portfolio of investments. This fee was calculated quarterly based on 0.25% plus VAT on the value of the Society's portfolio. Other than this, there was no additional commission or transaction fees.

A.4 Performance of other activities

A.4.1 Other material income and expenses

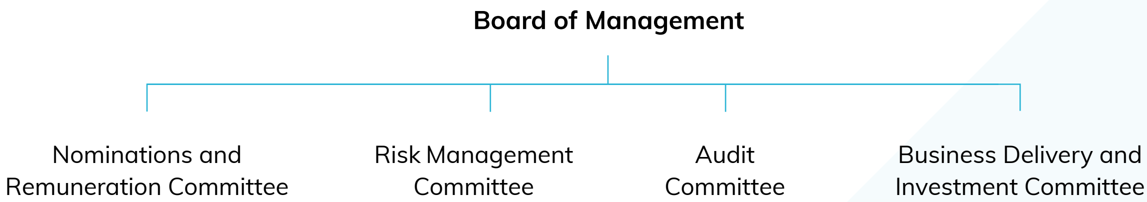
In the year ended 31st December 2018, the following values were included in the Consolidated Income Statement:

Turnover	(£)
Prevent Limited	685,414
Medex Protect Limited	619,943

B. Systems of governance

B.1 General information on the system of governance

B.1.1 Governance Structure



The diagram above shows the structure of the Board of Management at 31 December 2018. The key roles and responsibilities for the Board and each of the sub-committees are detailed below.

Board of Management

The Board of Management is collectively responsible for the long term success of the Society with an overarching aim of safeguarding members' interests. Its role is to provide leadership within a framework of prudent and effective controls which enables risk to be identified, assessed and managed. It sets the strategy and business objectives, ensures that the necessary financial, human and other resources are in place to achieve these objectives, monitors and reviews management performance. It is also responsible for the organisation's culture, setting values and standards of corporate behaviour which cover its obligations to all stakeholders, and for ensuring that these are understood and met.

The Board of Management operates within the regulatory provisions and guidance issued by the Financial Conduct Authority and the Prudential Regulation Authority. Board Members should deal with the regulators in an open and co-operative way and advise them promptly of any event, of which they could reasonably expect prompt notice.

Key responsibilities include:

- Determining the Society's vision and mission in order to provide overarching guidance for current operations and future developments
- Setting the strategy and agreeing the risk appetite that determines the risks that the Society is willing to take to achieve its strategic objectives
- Ensure that the Society's organisation structure and capability are appropriate for implementing and delivering the chosen strategies and plans
- Agreeing appropriate corporate plans for the development of the Society's business, along agreed strategic lines, taking account of the risks faced by the Society
- Maintaining adequate financial resources and overseeing the delivery of planned results by monitoring performance against agreed strategic objectives and targets set out in the business plan and annual budget

Nominations and Remuneration Committee

The role of the Nominations and Remuneration Committee is to provide assurance to the Board in regards to recruitment, retention, training, performance and reward. This includes the maintenance of the appropriate skills and competence mix to meet the strategic aims of the Society.

Key responsibilities include:

- Review on a regular basis, the structure size and composition of the Board and to make recommendations to the Board, for any proposed changes
- Formulate plans for succession for both executive and non-executive directors of the Board, senior management, key function holders and other material risk takers
- Identify and nominate for the approval of the Board, suitable candidates to fill Board vacancies
- Oversee annual evaluations of the Board's performance ensuring that, once in every three years, this is undertaken by an external, independent body. Review the results of these Board evaluations, in particular how they relate to the Board's composition and effectiveness and recommend to the Board any action
- Review the ongoing training and competence needs of the Board, agree plans for training and development and monitor their delivery to ensure continuing effectiveness and improvement in the Board's capacity
- Consider the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required and the need for progressive refreshing of the Board (particularly in relation to directors being re-elected for a term beyond nine years)
- Make recommendations to the Board for approval on appointments to the Board's Sub Committee and ensure that they are rotated sufficiently frequently to spread expertise and maintain the freshness of the Committees
- Assist the Board in developing and maintaining the Society's culture, its behaviours, body of ethics and code of business conduct
- Recommend to the Board for approval, the Society's remuneration policy and oversee its implementation, through the Chairman and the Chief Executive (as appropriate) for the total remuneration of executive directors, the chairman and other designated senior executives
- Review and monitor the remuneration of the Society's employees, including bonuses, commission, incentive payments and any other payments
- Oversee the Society's defined contribution scheme for individual Society employees, ensuring that the external provider offers a good, affordable and sustainable scheme
- Ensure that the remuneration policy aligns with the risk appetite of the Society and is consistent with the Society's long term strategic goals
- Oversee any major changes in employee benefits structures throughout the Society

Audit Committee

The role of the Audit Committee is to provide independent and objective oversight, to challenge of the financial statements and the internal control environment. This is achieved through ensuring that the principles, policies and practices adopted in the preparation of the Annual Report & Accounts and Financial Statements comply with all statutory requirements in order that it may provide detailed assurance to the Society's Board of Management.

In addition, it is the role of the Committee to ensure a systematic, disciplined approach to obtaining assurances as to the adequacy and effectiveness of the full range of internal control procedures of the Society.

Key responsibilities include:

- Recommend policies that maintain and improve the financial health and integrity of the Society
- Monitor the integrity of the financial statements of the Society, including its annual reports and any other routine statement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain (having regard to matters communicated to it by the auditor)
- Monitor the overall framework of internal control, particularly those concerning financial reporting and disclosure and advise the Board on the appropriateness of policies and procedures designed to maintain control over transactions and events
- Oversee the effectiveness of the Society's Internal Audit function
- Oversee the selection process and make recommendations to the Board regarding appointment, re-appointment or removal of the Society's external auditor and, in turn, manage the relationship with the external auditor
- Review the Society's procedures for Whistleblowing ensuring that the Society's arrangements are adequate for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee should ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action
- Review the Society's procedures for the prevention of bribery and receive reports on non-compliance
- Review the Society's procedures for detecting fraud and receive reports on non-compliance
- Review the annual operating budget and annual capital budget and advise the Board on whether they are a robust basis for financial control and are consistent with the Society's strategy, corporate plans and financial policies

Risk Management Committee

The role of the Risk Management Committee is to provide an independent, objective oversight and challenge function that recommends the risk strategy, appetite and limit framework operated across the Society and oversees the business planning process and ORSA. The Risk Management Committee also provides oversight of the investment risks.

Key responsibilities include:

- Advise the Board and make recommendations as necessary, on the Society's overall risk strategy, appetite and tolerance (including measurement), taking account of the current and prospective macro-economic and financial environment and drawing on financial stability assessments
- Review and recommend to the Board the design and implementation of the Society's risk management and capital management policies and frameworks
- Review and recommend for approval by the Board, the Society's annual Own Risk and Solvency Assessment (ORSA) report, the associated Corporate Plan and the ORSA policy
- Keep under review the relationship with regulators and developments in the regulatory environment
- Review and approve the Society's annual compliance plan and ensure that resources are in place to deliver it
- Review risk reporting to ensure that it is of sufficient quality to enable effective and timely identification of strategic, financial, operational and conduct risk and that risk exposures are within risk appetite with any appropriate mitigants in place
- Oversee and advise the Board on the current risk exposures of the Society and future risk strategy
- Ensure that a sound risk culture is developed and embedded by assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks
- Review and advise the Board on any proposed strategic initiatives

Business Delivery & Investment Committee

The role of the Business Delivery and Investment Committee is to assist the Board in fulfilling its oversight responsibilities for sales and the subsequent customer experience across the Group, including its policy aims for retention of business. In addition, it will oversee the Society's investment processes, within policies set by the Board, including the appointment of external advisers and the management of the contractual relationship with any appointed external advisers.

Key responsibilities of the Committee include:

- Oversee the process and controls for sales and the customer journey, including the quality of information and services provided, to ensure that they meet the standards expected of the Society, are consistent with its stated values and support delivery of its strategic aims
- Receive and review reports from the Executive team on the business environment within which the Society operates, including trends, risks, opportunities, and potential changes in direction. Make recommendations to the Board about emerging developments and market positioning
- Review the continuing relevance of the Society's vision, mission, values and objectives, as they impact the customer experience and recommend to the Board any proposed changes
- Review progress against the sales and business delivery elements of the plan and annual budget and provide advice to the Audit Committee to assist with its responsibility for monitoring the overall financial performance of the Society. Identify key metrics against which to measure the success of the Society's current and future business
- Monitor business and product profitability, market share, trends and performance against targets and recommend action, as necessary, where these move out of line with agreed business strategy, plans and budgets
- Receive and consider reports on the number and nature of complaints made and any trends emerging and determine action as necessary
- Develop and recommend to the Board a policy for the pricing and underwriting of new business and products which will ensure the long term financial health of the Society
- Oversee the development and implementation of the Society's IT strategy ensuring that it has sufficient resource in terms of investment in people, infrastructure and development capacity. Make recommendations to the Board as necessary
- Agree and oversee the effective operation of a process for review and monitoring of the Society's investment of its assets, within policies set by the Board. This includes the appointment of external advisers. Ensure compliance with all applicable legislation and regulatory guidance, in regard to all investment matters
- Continuously review the performance of the outsourced investment management function and recommend action as necessary

B.1.2 Material changes in the system of governance that have taken place over the reporting period

Courtney Marsh became Chief Executive and holds the Chief Executive Officer Function role (SMF1), Nick Foskett became Chief Financial Officer and holds the Chief Finance Function role (SMF2).

The following Non-Executive Director stepped down at the AGM which took place on 18 May 2018:

- Mr Brian Stringer

The following was appointed to the Board as notified Non-Executive Director at the same AGM:

- Mr Scott Robinson

Mrs Alison Alden joined the Board as a Non-Executive Director in December 2018 and her approval and election are expected in May 2019.

B.1.3 Remuneration policy

The Society believes that its people play a key part in the overall success of the Society. Consequently, it is committed to providing total remuneration packages that will enable it to attract, reward, motivate and retain high quality people in return for high quality performance.

The policy:

- Sets out the principles governing the Society's remuneration
- Ensures that remuneration is in line with applicable statutory and regulatory requirements
- Ensures that remuneration will promote sound and effective risk management
- Identifies who is responsible for determining the remuneration and benefits packages offered by the Society and the factors to be considered by them when determining employee compensation
- Defines the various elements that make up employee remuneration including the additional benefits that Health Shield provides to its employees

The Society's Remuneration Policy has been designed to reflect the Society's objectives for good corporate governance and to provide sustained and long-term value for its Members.

The over-arching principles of the Remuneration Policy are as follows:

- The Society will adopt a remuneration policy and practices in line with its business and risk strategy, objectives, values and performance
- The remuneration policy will be applied in a proportionate and risk-based way, taking into account employees' specific roles and functions
- The Society's remuneration policy will be overseen by the Nominations and Remuneration Committee
- Fixed and variable remuneration (e.g. bonuses and commission) will be appropriately balanced so that the Society's employees do not become overly reliant on the variable component

- Variable remuneration will be based on a combination of the assessment of the individual and the collective performance and overall results of the Society
- The Society has decided to dis-apply the need for a deferral period having exercised appropriate judgement to ensure that the specific arrangements for Solvency II staff set out in Article 275(2) of the Solvency II Regulation (which include deferral) are applied proportionally and modified to meet the nature, scale and complexity of the risk inherent to the Society's business
- Financial and non-financial performance will be considered when measuring an individual's performance, and risk adjustments should be made when assessing performance for bonus awards
- The remuneration policy will be transparent internally and adequately disclosed externally
- Whilst the Society is not currently impacted by the regulatory remuneration code, it will comply with the core requirement of that code and ensure that the remuneration policy is risk-focused
- The Society is an equal opportunities employer and is committed to ensuring that all of its employees are remunerated fairly. Whilst the Society is not currently obliged to publish any gender pay calculations, it intends to take steps to monitor gender equality and reduce or eliminate their gender pay gap where applicable

The key objectives of the policy are to ensure that:

- The Society is able to attract, develop and retain high-performing and well-motivated employees in a competitive market — at all levels within the Society
- Employees are offered a consistent, competitive and market-aligned remuneration package in which fixed remuneration makes up a significant proportion of all remuneration; and the variable remuneration elements structured in order to link rewards to corporate and individual performance in a manner that promotes the long-term success of the Society
- A fixed salary contributes a significant proportion of the overall remuneration package
- Employees feel encouraged to perform to the best of their ability at all times and achieving individual and group targets is rewarded fairly and proportionately
- The process for determining the appropriate remuneration at all levels of the company is transparent and fair so that employees remain informed
- Employee remuneration does not become excessive, disproportionate or pose a threat to the long-term stability and viability of the Society as a business
- Employee remuneration packages are compatible with the Society's '10 Conduct of Business Principles' – in particular 'staff should not be provided with incentives that may risk Members being sold unsuitable products'
- Employee remuneration is compliant with existing statutory legislation and industry regulation
- Employees receive more than the minimum remuneration package that they are entitled to in line with statutory legislation

B.1.4 Material transactions with persons who exercise a significant influence

No material transactions were carried out within the period.

B.2 Fit and Proper requirements

B.2.1 Skills, knowledge and expertise

The Society ensures that all persons who effectively run the Society or have other Key Functions are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity. This includes compliance with all obligations under both the Senior Insurance Manager's Regime and Approved Persons Regime.

The Society ensures that its business functions are led by appropriately skilled people who collectively possess professional qualifications, experience and knowledge about at least:

- Insurance and financial markets;
- Sales operations;
- IT and business operations, including human resources;
- Business strategy and business model;
- System of governance;
- Financial and actuarial analysis; and
- Regulatory framework and requirements, as relevant to the requirements of that function.

B.2.2 Fitness and propriety of persons

In order to ensure that Senior Managers and Directors of the Society are fit, they are recruited giving due regard to their qualifications, knowledge and relevant experience. Background and other checks are conducted as required and relevant to the role to be undertaken. Some of the general checks conducted include:

- Educational Background Check; and
- Professional Qualifications / Membership Check

In order to ensure that Senior Managers and Directors are proper, they are subjected to a variety of checks at the commencement of their assessment, which may include:

- Credit checks
- Identity checks (including passport)
- FCA Register search
- UK Directorship search
- Six Years Employment History (including gap activity over 30 days)
- Social Media checks
- Standard Disclosure checks

B.3 Risk management

B.3.1 Risk management system

The framework includes the roles, structures and mechanisms described in this policy and used to ensure that risk is managed effectively. The key elements of the risk framework are:

Strategy and business plan	How the Society is going to achieve its vision and long-term objectives
Risk appetite	The amount and type of risk that the Society is willing to accept in order to achieve its strategy and business plan
Capital management	Holding enough assets to cover liabilities to stakeholders
Risk governance & culture	The control structure and behaviours that influence decision making
Key risks	Significant areas of uncertainty that the Society is required to manage
Risk management processes	Day-to-day activities used to reduce uncertainty and deliver the strategy and business plan

The Society's framework is built around a three lines of defence approach. The Board has ultimate responsibility for risk management and the effectiveness of the risk management system. The Board agrees the Society's strategy and appetite for risk and ensure it has the right people in place in each line of defence to manage and monitor risk in line with the strategy and appetite. The three lines comprise of:

1. **Risk management** – risk will be managed day to day on the front line by the executive, managers and staff. This is in accordance with the risk appetite, strategies and the risk framework, which are all set by the Board
2. **Risk oversight** – the Society has independent Risk, Compliance and Actuarial Functions. All three functions will provide assurance to the Board on risk and capital management, business planning and internal controls
3. **Risk assurance** – the Society's Internal Audit Function currently consists of an Internal Auditor for operational issues and an external firm for strategic issues. This will provide independent assurance on the design and effectiveness of the overall system of internal control, including risk management and compliance.

B.3.2 Roles within the risk management system

Within the risk management system, there are expectations of key roles. These include:

The Board of Management

The Board has responsibility for determining the strategic direction of the Society and for creating the structures for risk management to operate effectively. It reserves the right to approve key policies, strategies and appointments.

The Board must consider the nature of the risks that the Society is prepared to accept and the likelihood of such risks occurring. It discharges this responsibility through a number of critical risk and capital management processes, including approving the Society's Risk Management Policy and steering and approving the Society's Own Risk and Solvency Assessment (ORSA).

Risk Management Committee

The Risk Management Committee assists the Board of Management in fulfilling its oversight responsibilities for the risk management framework, including recommending the Risk Management Policy and risk appetite for the Board's approval.

Chief Executive Officer

- Implement overall strategy and deliver the business plan;
- Set the 'Tone from the top' and develop a mature risk culture;
- Delegate authority to enable effective risk based decision making;
- Implement an effective organisation structure;
- Maintain oversight of all key risks and mitigating actions.

Chief Financial Officer

- Provide accurate and timely financial and solvency reporting;
- Manage market risk (including investment advisors);
- Manage insurance risk (including reissuance).

Director of Compliance and Risk

- Provide an independent view on the Society's risks (including emerging risk);
- Provide advice and guidance upon governance and conduct issues;
- Develop and oversee implementation of the Risk Management Framework.

Head of Internal Audit

- Provide independent assurance on the internal controls system;
- Provide oversight of the first and second lines.

Chief Actuary

- Provide actuarial expertise and advice;
- Deliver accurate and timely actuarial reporting.

Risk Manager

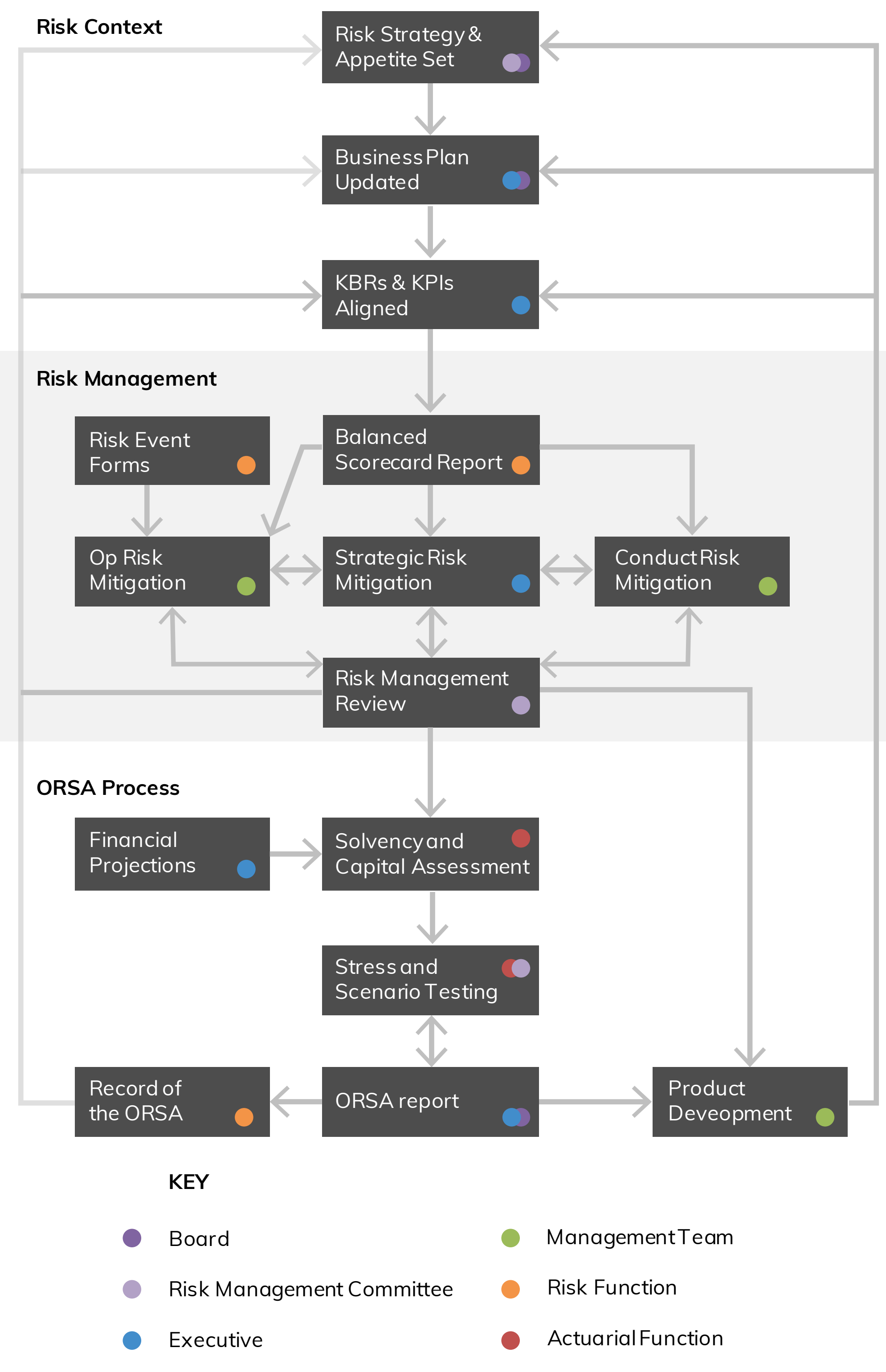
- Implement and deliver the Risk Management Framework;
- Work with and support the management team to deliver risk based decision making;
- Production and collation of risk based MI;
- Deliver the Compliance & Risk training plan.

B.3.3 Own Risk and Solvency Assessment (ORSA)

The Society uses the ORSA process to challenge and stress test its current strategy and business plan, specifically from a solvency perspective. The process is on-going throughout the year and culminates with the production of an annual ORSA Report. The report is recommended by the Risk Management Committee, approved by the Board and submitted to the PRA. Within the ORSA Policy & Process the Board set out the process for the forth-coming year and detail circumstances, which if they were to occur, would trigger an ad hoc ORSA Report.

The Board considers each year whether its own solvency assessment is adequate compared to the standard formula and it determines whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA Report and shared with the regulator.

The ORSA Process



B.4 Internal control system

The system of controls, financial or otherwise, established by the Society helps to ensure that its business is carried out in an effective and efficient manner, adhering to the Board's requirements as stated in its various policies. These controls safeguard the Society's assets and its continued compliance within the regulated industry it operates.

The GAAP financial statements are also subject to rigorous controls in the production and review leading up to Board approval and subsequent publication. The actuarial liabilities are produced using best actuarial practices and are subject to review by the Risk Function and the Audit Committee. The statements are also subject to both internal and external audit review. They are presented to the Audit Committee and Board for sign-off prior to publication.

B.4.1 Implementation of the compliance function

The Compliance Function is responsible for reporting to the Board any breaches, or non-compliance with policies or any other relevant rules or regulations. To ensure the independence of the Compliance function, the Compliance Manager reports to the Director of Compliance & Risk Director who reports to the Risk Management Committee.

The main Compliance activities are shown in the following diagram:

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The Internal Audit function is the third line of defence in the Society and is implemented through the following process:

- An audit plan is created on an annual basis and ensures sufficient evidence will be obtained to evaluate the effectiveness of the risk management and control processes across the business. The plan includes a review of the risk management processes operating across the business and a selection of the key risks identified from those processes. The audit plan also considers those operations most affected by recent or expected changes, for example changes following acquisitions or restructures and areas of regulatory focus. The proposed plan is flexible so that adjustments can be made during the year due to changes in management strategies, external conditions, major risk areas, or revised expectations in respect of achieving the business' objectives. Any proposed changes or updates to the plan are reported to the Audit Committee for review and agreement prior to being incorporated into ongoing work. The Audit Committee review and approve the plan at least annually
- Based on the annual plan, the internal audit activity evaluates the adequacy and effectiveness of controls encompassing the business' governance, operations, and information systems. This includes:
  - Reliability and integrity of financial and operational information;
  - Effectiveness and efficiency of operations;
  - Safeguarding of assets; and
  - Compliance with laws, regulations, and contracts.
- To minimise duplication of effort and inefficiencies in the work planned, whilst determining the proposed audit plan, the Internal Audit function considers relevant work that will be performed by other areas, e.g. Risk, Compliance and External Audit; and
- The Executive and the Board requires that the Internal Audit function performs sufficient audit work and gathers other available information during the year in order to form a judgement regarding the adequacy and effectiveness of the risk management and control processes. The Internal Audit function communicates overall judgement regarding the Society's risk management process and system of controls to the Executive and Audit Committee on an annual basis, in addition to communicating key findings from the completion of individual audits.

B.5.2 Independence of the internal audit function

The internal audit function of the Society is outsourced to PwC who currently holds the role of Head of Internal Audit. PwC have a direct line of report into the chair of the Audit Committee. The Society also has an in-house Internal Audit Team who report administratively to the Chief Executive and functionally to PwC. This reporting structure ensures independence of the internal audit function.

A key advantage of using this model to carry out Internal Audit activity is that it provides a wider array of skills to carry out audits of different parts of the business including the more technical areas.

B.6 Actuarial function

The position of Chief Actuary is currently held by a partner at Oliver Wyman, a leading provider of UK Life and Health insurance actuarial expertise. The role holder is a Fellow of the Institute and Faculty of Actuaries and has complied continuously with the specific professional obligations this requires. He holds a Practicing Certificate and is an Approved Person under the SM&CR regime.

The Chief Actuary is supported by Fellows and members of the Institute and Faculty of Actuaries, as well as other technical professionals within Oliver Wyman.

Independence is assured as the Chief Actuary reports to the Audit Committee and has no direct involvement in the day-to-day running of the Society.

The Actuarial function works alongside the Finance and Risk Management functions to ensure compliance with the technical aspects of the EU Solvency II Directive.

B.7 Outsourcing

B.7.1 Supplier Management Policy

The Society's Supplier Management Policy requires that a proportionate approach be taken for the appointment and management of suppliers. Suppliers are categorised into one of three categories:

- Critical and Important
- Business essential
- Conventional services

The determination is broadly defined through understanding each of the following parameters:

- Regulatory significance
- Spend
- Innovation/collaboration inherent in the service
- Linkages to key processes
- Extent of data sharing
- Risk of failure
- Customer impact

In selecting a supplier the Society must ensure that it does not lead to:

- Materially impairing the quality of the firm's system of governance
- Unduly increasing the operational risk
- Impairing the ability of the supervisory authorities to monitor the firm's compliance with its obligations
- Undermining continuous and satisfactory service to members

When appointing a critical or important supplier a robust due diligence process must be undertaken, including a risk assessment and a written agreement in place.

B.7.2 Outsourcing of critical operational functions

The Society is currently utilising several service providers to undertake critical or important functions on its behalf. Details of the functions provided are shown below:

What has been outsourced

- IT Services support
- Internal Audit Function
- Actuarial Services
- Investment Management

C. Risk Profile

Material lines of business

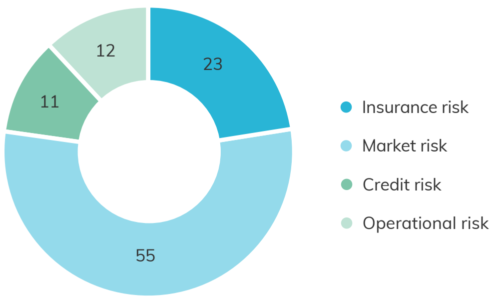
The Society's core business is the provision of health cash plan insurance to corporate and individual customers. It offers a number of variations on the health cash plan products each with their own target market.

The Society has three wholly owned subsidiaries, which do not underwrite insurance, and do not currently represent material lines of business for the Society.

Summary of risk profile

The Society writes health protection business, which provides the core benefits of a health cash plan to members. The resulting standard formula undiversified basic Solvency Capital Requirement ("SCR") risk profile as at 31 December 2018 is shown below.

2018 SCR Capital using the Standard Formula



The SCR profile is dominated by market risk, which is consistent with prior years. This is due to the Society's holdings of equities, both UK and overseas. This is followed by insurance risks which arise specifically from unexpected changes in claim or lapse experience.

As the Society has the right to review premiums on an annual basis a contract boundary is calculated at product level and used in the calculation of the SCR.

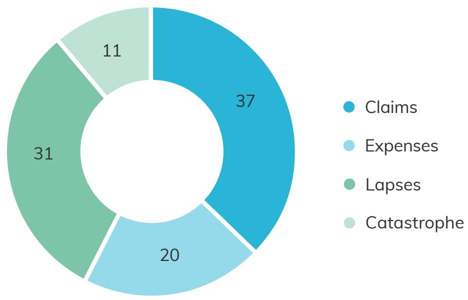
The Society's Solvency II technical provision for 2018 is £3.4m, which is a decrease of £1.3m on 2017 and reflects changes in the membership profile, a reduction in allowance for future renewal commission, changes to the claims inflation and premium increases.

Diversified SCR for 2018 is £10m, £1.5m less than in 2017, free assets over the SCR have also reduced from £32.7m to £29.1m over the same period. The reduction in free assets has seen a reduction in market risk, down from £10.4m last year to £8.3m in 2018. This parallel movement translates into a relatively consistent pillar one SCR coverage, 383% last year to 390% in 2018. The Society remains in a strong financial positon. The Society's Investment Policy details the Board's requirements for matching investment asset types against capital requirements based upon the Solvency II risk weighting).

C.1 Insurance risk

Insurance risk at 31 December 2018 comprises 23% of the total undiversified SCR, compared to 21% for 2017. It is dominated by claims and lapse risk for which our outlook remains unchanged. We seek to manage our exposure through close monitoring and adjustments to pricing and benefits.

2018 Insurance SCR Capital using the Standard Formula



Lapse Risk

The Society is exposed to the risk of lapse rates being higher than expected when business is profitable and lapses being lower than expected when business is not. It is also exposed to an instantaneous one-off shock lapse event, particularly on profitable business.

Lapse risk can arise due to inaccurate estimation, trends, economic shocks, competitor activity (lapse and re-entry), changes in policyholder behaviour and reputational damage.

Claims Risk

Claims incidence and payments could be higher or lower than expected. This could be from an above inflationary rise in claim payments or an increase in members' propensity to claim. Due to the nature of cash plans, one off large claims are very unlikely, with the exception of multiple personal accident claims for which the Society has a reinsurance policy.

C.1.1 Assessment and management of insurance risk

The Society monitors and controls underwriting risks via various methods, including:

Claims risk

- Premium increases and benefit reviews across all products to manage claims in line with the Society's business plan and risk appetite
- Pricing & underwriting expertise to win only desirable business and review existing products
- Reinsurance is held for multiple personal accident claims. The appropriateness of the reinsurance programme is assessed at least once a year by the external actuarial function

Lapse risk

- Maintaining high levels of stakeholder service as stated in the Society's objectives
- Managing scheme renewals to keep members and groups with good experience but be willing to let unprofitable business go

Expense risk

- Monitoring of departmental expenses against budget, variances reported on a monthly basis
- Material expenses outside of budget require a business case for consideration and approval by the Board

In addition, across all underwriting risks, monthly performance reporting through the Society's balanced scorecard highlights any areas outside of the Board's risk appetite.

The Society's ORSA also includes stress and scenario testing which is used to assess the risks under stressed conditions.

The Society's Product Development function ensures all new products and reviews of existing products are completed to ensure a good member outcome but operates within the Board's Risk Appetite.

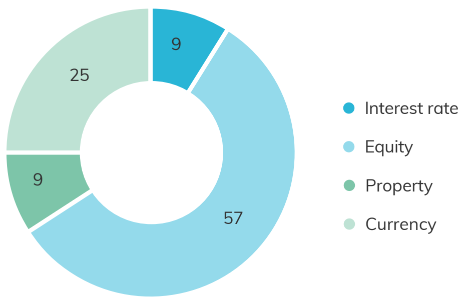
C.1.2 Risk sensitivity for insurance risk

The Society carries out extensive stress and scenario testing as part of the ORSA process, including for material underwriting risks. The ORSA Report documents the Society's projected solvency position over the length of the latest iteration of the Business Plan and is key in the Board's approval process. The stresses and scenarios are reviewed annually by the Executive based upon the internal and external context that the Society is currently operating within.

C.2 Market risk

Market risk at 31 December 2018 comprises 55% of the total undiversified SCR, compared to 60% for 2017. It is dominated by equity risk and to a lesser extent currency risk. As in previous years this is due to the Society's significant holdings in equities.

2018 Market SCR Capital using the Standard Formula



Equity risk

The Society invests directly in UK equities and uses collective investment schemes to invest in overseas equities. It is therefore exposed to the volatility of these asset classes, as a percentage of overall market risk, equity risk is down from 59% in 2017 to 57% this year.

Currency risk

The Society has made the decision to diversify its portfolio and invest in overseas, as well as UK assets, with collective investment schemes. It accepts there is additional currency risk from these investments but is happy to incur this risk due its financial strength and the benefits of portfolio diversification. Currency risk as a percentage of overall market risk remains 25% in 2018 as it was in 2017.

Other risks

The Society's property risk comes mainly from its ownership of its head office in Crewe. Interest rate risk stems from being intentionally mismatched in terms of duration on its fixed interest portfolio compared to the underlying liabilities. This decision has been made in order to increase overall returns on the portfolio.

C.2.1 Investment assets and prudent person principle as applied to market risks

The Society's investment policy requires all liabilities and the SCR to be prudently covered by fixed interest and cash investments.

There are no investments in derivative instruments.

C.2.2 Assessment and management of market risk

Performance against the Investment Policy is monitored monthly by the Finance function and reported to the wider Society via the Balanced Scorecard.

The portfolio could be de-risked in a number of ways:

- Reduction in equity holdings and increase in fixed interest
- Better matching of liabilities (by holding shorter duration assets)
- Only holding UK assets

These changes would release a significant amount of capital and could be implemented relatively quickly.

The Society's asset and liability profile does not lead itself to hedging strategies or the use of derivatives. However, if this position were to change in the future these would be considered.

Any value created by these mitigating actions can be summarised as a risk reward trade off. The portfolio can be de-risked, although this would be at the expense of lower expected returns and vice versa. It is for the Board to set its appetite for market risk and subsequent investment strategy in order to maximise returns.

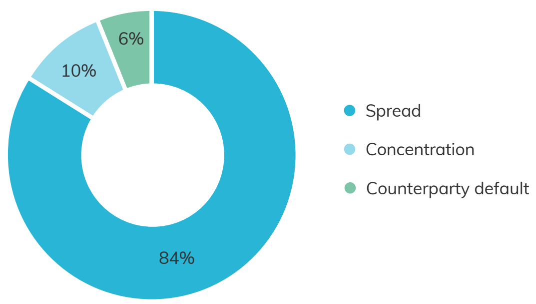
C.2.3 Risk sensitivity for market risk

The Society carries out extensive adverse market stress and scenario testing as part of the ORSA Report. The projected solvency position over the period of the latest Business Plan is calculated to provide assurance to the Board and used as part of the approval process.

C.3 Credit risk

Credit risk at 31 December 2018 comprises 11% of the total undiversified SCR, which is a 2% increase on 2017. It is dominated by spread risk as concentration and counterparty default risk are very low.

2018 Credit SCR Capital using the Standard Formula



Spread risk

The Society invests directly in corporate bonds; it holds a range of bonds with differing credit ratings and is therefore exposed to the volatility of these assets and the risk of spread movements and downgrades.

C.3.1 Investment assets and prudent person principle as applied to credit risk

The security of the bond portfolio was considered and holdings may be of any credit rating but the average rating of the portfolio must be at least Standard and Poor's single 'A' or the equivalent rating. The Society places limits on the size of any individual counterparty to avoid concentration risk.

C.3.2 Assessment and management of credit risk

The Society states its appetite for credit risk within it Investment Policy and monthly reporting of compliance with this policy is supplied by the investment managers. As is performance against the agreed market benchmarks.

The portfolio could be de-risked by holding higher-grade fixed interest or cash investments. These changes would release capital and could be implemented relatively quickly.

C.3.3 Risk sensitivity for credit risk

The Society carries out extensive stress and scenario testing as part of the ORSA Report. The projected solvency position over the period of the latest Business Plan is calculated to provide assurance to the Board and used as part of the approval process.

C.4 Liquidity risk

Liquidity risk is not in the standard formula and is a risk that is managed rather than capitalised against, as holding additional capital will not help in a liquidity stress scenario. The Society has a robust and appropriate liquidity management system and holds adequate liquid assets to meet outgoings in a wide range of scenarios.

As at 31 December 2018, the Society holds a significant proportion of its assets in fixed interest and cash across a range of durations.

C.4.1 Prudent person principle as applied to liquidity risk

The Society's assets are prudently invested taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities.

C.4.2 Assessment and management of liquidity risk

The Society's Finance team regularly assess liquidity requirements and work closely with the Society's investment managers to ensure liquid assets are available if needed.

C.5 Operational risk

C.5.1 Material operational risk

Material operational risks that the business continues to manage proactively over the period are:

- Key projects must be successfully delivered, including the integration of acquisitions, which are required to deliver future synergies. The Society acquired two subsidiary businesses in 2017 which will be fully integrated into its core operations by the end of 2019.
- Operations must be sufficiently resilient to withstand or recover quickly from disruptions and unforeseen events.
- Outsourcing of critical services requires that the Society adopts appropriate control and oversight of the service providers.
- The Society's activities must be consistent with regulatory requirements and expectations. In 2018, the Society was particularly focused on the implementation of GDPR. The Society is also engaged in reviewing its regulatory permissions to ensure they remain appropriate.
- The Society continues to distribute its products through the broker market and its own dedicated sales force. The Society recognises the associated operational risks, for example potential mis-selling.

C.5.2 Assessment and Management of operational risks

The following measures are used to assess operational risks:

- Operational performance is measured on a monthly basis against the business plan and departmental targets via the Society's balanced scorecard report
- Operational risks are monitored and reviewed on an on-going basis during monthly Risk Partner meetings. Aggregated risk information is then communicated both vertically and horizontally within the Society, including to the Board.

All material operational risks to which the Society is exposed are documented in the Risk Register. The register includes an assessment of likelihood and impact, based upon the Society's Risk Matrix, any identified controls and agreed actions.

Operational risk capital is not currently at a level where it would threaten the Society's solvency. There are operational risks that can threaten the ability to administer business which are being managed appropriately by the Society's Management Team.

The key consideration in any operational risk control activity is whether the return on the expenditure is value for money. For example, where risk can be reduced by a new policy or training, the cost is minimal and likely to be beneficial due to reduced capital costs and a safer working environment. Where significant cost is required to achieve limited benefit, the Board may consider that this would not be a sensible use of the Society's assets.

C.5.3 Risk sensitivity for operational risk

Operational risk SCR, under the Standard Formula, is based upon a flat rate of 4% of the Society's annual premium income. In 2018 operational risk accounts for 12% of undiversified SCR, this is up from 2017 and 2016, which were 10% and 8% respectively.

C.6 Other material risks

C.6.1 New business risk

New business risk capital is held within the Society's pillar two SCR calculation as the Board felt that it was not appropriately allowed for within the standard formula. The Society holds additional capital for the risk that new business is not profitable, including the costs of acquiring it. This could be because the acquisition expenses are too high, the volumes sold are too low, the wrong mix of business is sold or the products being offered are simply not priced correctly. There is also a risk to new business volumes given that Insurance Premium Tax (IPT) may be increased further from its current rate.

C.6.2 Assessment and management of new business risk

New business risk causes a threat where the mix or volume is different to expectations. The Society uses its balanced scorecard to monitor this position continuously. Deviations would be managed through staff training, strategy and incentives.

If a particularly large scheme were to be brought in, advice may be sought from a pricing and capital perspective from the Actuarial function.

Many of the ways new business risk can be mitigated have little cost including staff training and the further education of brokers. Even when changing commission structures, the cost can be mitigated by the improved profitability and improved lapses they incentivise.

C.6.3 Risk sensitivity for other material risks

The Society carries out extensive stress and scenario testing as part of the ORSA Report, which includes assessing the impact of varying levels of new business.

C.6.4 Use of derivatives, reinsurance and management actions

Given the nature of its assets and its current and projected financial position, the Society does not use and is not planning to use derivatives.

The Society uses one small reinsurance contract as described earlier in this section to cover multiple personal accident claims. However, this is not recognised within the calculation of the best estimate liabilities due to its size.

Finally, no management actions are used in the calculation of the SCR.

D. Valuation for solvency purposes

Solvency II Summary Balance Sheet

The table below summarises the Solvency II balance sheet as at 31 December 2018 and 31 December 2017:

Balance Sheet	2018 £000s	2017 £000s
Total Assets	45,733	52,613
Technical Provisions	(3,411)	(4,749)
Other Liabilities	(3,166)	(3,667)
Excess of Assets over Liabilities (Own Funds)	39,156	44,197

D.1 Assets

The Society's financial statements are prepared on the basis of UK GAAP, which is largely consistent with the Solvency II basis with only minor adjustments (as explained below). The Solvency II valuation for each material class of asset is as follows:

Asset types	2018 £000s	2017 £000s
Investments	35,890	41,906
Head office property	2,477	2,425
Fixtures, Fittings and Equipment	1,305	992
Other Net Assets	4,904	5,759
Cash	1,157	1,531

Investments

The majority of the Society's assets are externally managed by Investec. They manage the Society's holdings of UK equities, overseas equities (through collective investment schemes), gilts, corporate bonds, alternative assets and some cash.

The level of investment income fell in 2018 in comparison to the previous year. Investment gains (realised and unrealised) fell compared to 2017 as a result of lower performance across both equity and fixed interest markets.

All assets are valued at fair value under Solvency II based on market prices at the reporting date, which are quoted prices in active markets for identical assets per Article 10(2) of the Delegated Regulation. As these are publicly traded securities, the market prices are readily available and are actively traded – details of which are provided in a statement from the investment manager.

No significant estimates or judgements are used in the valuation of these investments.

Cash held by Investec is placed on deposit with a range of banks in order to reduce the exposure to any one institution. Its Cash & Credit Management Committee set minimum credit criteria, which are based on Fitch ratings and they are responsible for approving banks for deposit placing purposes.

Cash is valued at fair value by the relevant financial institution, and the Society receives monthly reports from the Investment Manager at the period end that confirm the balances held.

The Society has acquired two non-insurance businesses as strategic investments in related undertakings. Under Solvency II these acquisitions are valued using the adjusted equity method (i.e. the value of the net assets on a Solvency II basis), rather than the acquisition method (including goodwill) under GAAP. This results in a £2.1m reduction in total assets in the Solvency II balance sheet in comparison to the Society's report and accounts.

Head office property

The Society owns its head office in Crewe. It was valued on an open market basis on 31 December 2018 by the Society's surveyors, Legat Owen Limited.

Other net assets

Other net assets at 31 December 2018 include debtors arising out of direct insurance operations, prepayments and accrued income.

No estimation methods, adjustments for future value or valuation judgements are required for these balances.

Cash

The Society directly holds its cash in UK sterling bank accounts.

No estimation methods, adjustments for future value or valuation judgements are required for these balances.

Cash is valued at fair value by the relevant financial institution, and the Society receives monthly statements at the period end to confirm the balances held.

There are no significant estimates or judgements used in valuing cash holdings due to the nature of the asset. For Solvency II, the total of cash (reported in the Quantitative Reporting Template ("QRT") reference S.02.01) includes only those balances held in bank accounts – the total of collective investment undertakings is reported on a separate line.

D.2 Technical provisions

D.2.1 Technical provisions by material line of business

The table below compares the technical provisions at 31 December 2018 to the previous year, by line of business:

Technical provision	2018 £m	2017 £m
Ordinary members' reserve	(0.2)	1.3
Incurred but not paid (IBNP) reserve	3.3	3.1
Life & L&Y[1]	0.1	0.1
Risk margin	0.2	0.2
Total technical provisions	3.4	4.7

The decrease in Technical Provisions over the year has been driven by a combination of a:

- Change in the membership profile, including premiums and benefit levels;
- Reduction in allowance for future renewal commission; and
- Change to the claims inflation and premium increases.

[1] L & Y refers to the Lancaster & York Sick Fund and Insurance Societies

The following table then shows how Society II liabilities have moved over 2018:

Movement type	Technical provisions £m	Impact £m
2017 Central	4.7	
+ 2018 Change in contract boundary assumptions		(0.5)
+ 2018 Change in Membership Profile*		(0.8)
+ 2018 Renewal commission		(0.6)
+ 2018 Claims rates basis		0.2
+ 2018 Premium and claims increases		(1.1)
+ 2018 Expense basis		1.2
+ 2018 Lapse Basis		(0.0)
+ 2018 IPT Basis		0.2
+ 2018 IBNP Basis		0.1
+ 2018 Miscellaneous**		(0.0)
2018 Central	3.4	

* Change in Membership Profile includes updated Premiums and Benefits
** Miscellaneous includes: Mortality Basis; Catastrophe Risk; Operational Risk; Counterparty Default Risk; Yield Curve; Life and L&Y

D.2.2 Methodology for the calculation of Technical Provisions

The valuation methodology is based on the gross premium method, i.e. the reserves are calculated by discounting the members' expected future benefits, commission payable, IPT and expenses less the members' future premiums.

The long-term business provision is based on the Solvency II technical provisions (under the Standard Formula), without any adjustments. For avoidance of doubt, no allowance has been made for transitional measures for liabilities calculations, volatility or matching adjustment.

The Solvency II technical provisions comprises of the best estimate liabilities plus a "Risk Margin" which reflects the cost of "unhedgeable risks" that an external buyer of the business would theoretically require. Its calculation methodology is prescribed by the regulations under Solvency II based on applying a 6% "cost of capital" to the SCR capital requirements associated with certain types of risk.

The Society's membership is split into the following product groups for the purpose of the valuation:

- Corporate
- Direct, Direct Plus and Connect Flex
- Essentials and Elements
- Tailored

Allowance is made for negative reserves on a policy-by-policy level.

D.2.3 Contract boundary

Following discussions with the auditor subsequent to the last valuation, it was agreed that for the 2018 valuation, the contract boundaries will be set by reference to scheme renewal dates (with the exception of Corporate and Direct policies which are reviewed on 1 January each year).

On grounds of materiality, the proposed methodology is to adopt a single weighted average contract boundary for each of the product groups rather than on a policy-bypolicy basis.

The applicable contract boundary for each scheme varies in accordance with the month of renewal.

The valuation basis assumes that the Society guarantees 100% of future claims.

D.2.4 Benefit payments

The valuation basis assumes that the Society guarantees 100% of future claims.

D.2.5 Fixed costs benefits

Fixed cost benefits have been calibrated according to the additional costs of these benefits outlined in the five-year plan. They include items such as third party benefit costs which are provided within the health cash plan.

D.2.6 Claims and demographics assumptions

Claims rates

For each product group (except for Tailored), separate claims bases were produced for all levels. For Tailored business, a single claims basis is adopted defined in proportion to coverage levels by benefit. Claims rates have also been assessed by gender, age bands and policy type.

This claims basis has been derived through an analysis of the claims experience over 2018. For each product group, average claim amounts per member per month are produced by analysing the actual claims in each homogeneous group and then applying statistical techniques to ensure that the basis is smooth, internally consistent and still representative of the actual experience.

Lapse assumptions

A detailed analysis of lapses over 2018 was conducted, split by each product group and age band. The best estimate assumptions were based on the average lapse rates from over the last three years.

Raw lapse rates for each product are calculated based on the lapse experience over a three-year period from 1 January 2016 to 31 December 2018. From these raw lapse rates, two separate lapse profiles by age are created for:

- Direct business
- All other business – this is an average of all other product lines, weighted by exposure in each product

The above approach is taken because the lapse profile for direct business by age is significantly flatter than the other products. The lapse profile is then scaled up or down for each of the four constituent product lines to produce four separate lapse profiles consistent with each product's actual experience.

Mortality assumptions

A detailed analysis of the decrements experienced over 2017-2018 has been carried out in order to generate a mortality assumption for the 31 December 2018 valuation. The best estimate mortality assumption is set at 35% of the standard AM/FC00 Ultimate table published by the Continuous Mortality Investigation Bureau

Incurred But Not Paid (IBNP) reserve

A provision has been made for claims that have been incurred but not yet reported or paid by the Society. This is calculated by analysing the delay between the date a claim is incurred and the date that it is paid.

In previous years, IBNP reserves were established by analysing the average claim patterns over a three-year period. However, since the introduction of the online claims submission system in November 2015, the claims team has been able to start processing the claims applications as soon as the files are downloaded to the system. Therefore, the pattern of delay between claims being incurred and reported is expected to change substantially for that point onwards. For that reason, the IBNP reserves for 2016 and 2017 were based on shorter periods of empirical data of one year's and two year's claims patterns respectively.

This year's IBNP reserve is calculated based on only the last three years' claims pattern.

D.2.7 Inflation and economic assumptions

Claims Inflation

Claims inflation assumptions have been set based on the Society's Business Plan, but allow for the following adjustments:

- Adjustment for actual vs budgeted loss ratios.
- Shift from a "paid basis" to an "incurred basis"

Premium inflation

Future premium inflation assumptions are required for the valuation basis. These mirror the assumptions used in the Business Plan, without adjustment.

Expense inflation

Maintenance expenses are currently set as a fixed percentage of premium for the valuation, which implicitly assumes that maintenance expenses are inflating in line with premium inflation. Therefore, explicit expense inflation assumptions are not currently required.

This approach ensures that expenses are modelled in line with the Business Plan and the projected expenses are therefore what we expect to be incurred.

Inflation for fixed cost benefits

Fixed cost benefits are assumed to inflate at RPI, based on data sourced from the Bank of England as at 31 December 2018. The shortest term for which data exists is 25 months, so the 25-month RPI spot rate (3.1% p.a.) has been selected, in 2017 this was 2.9%.

Discount rate

The interest rate used for the valuation is based on the Sterling "risk free" yield as published by EIOPA as at 31 December 2018. The one-year spot rate as at 31 December 2018 was 0.981% p.a. (December 2017: 0.555% p.a.).

D.2.8 Other assumptions

Expenses

The gross premium valuation explicitly allows for expenses for the regular members.

Assumptions for maintenance expenses have been set equal to the 2019 budgeted claims expenses and administrative expenses of £8.9m (as detailed in the business plan). Which represents 17.9% of the 2019 budgeted premiums (£49.6m). This increase in renewal expenses as a percentage of premiums reflects an expected increase in the cost base of the Society.

The Society's Actuarial function investigated whether Business Plan expenses are a reasonable basis for setting the expense assumptions for the valuation by comparing the actual expenses against budgeted expenses over the past three years. The investigations showed that the actual expenses were on average 3% higher than budgeted expenses (i.e. 0.5% of 2018 premiums), which validated the approach. The Actuarial function have therefore added 0.5% to each year's loss ratio for all products.

Taking into account considerations set out above, the valuation maintenance expense assumption has been set to 18.4%.

Insurance premium tax (IPT)

An increase in IPT from 10% to 12% came into effect from 1 June 2017 for new business and for existing business from 1 June 2018. The valuation uses the full IPT rate of 12%.

Renewal commission

Renewal commission is currently paid for some products sold through the broker distribution channel each year (mainly Essentials and Tailored). On the renewal date of each scheme (i.e. policy anniversary), renewal commission is paid in advance for the next 12 months, without amortisation over the period until next renewal.

The LTBP therefore only needs to allow for renewal commission that is expected to be paid in the period from January to March 2019, in order to be consistent with the new contract boundary assumptions as set out in section D2.3. For schemes renewing from April onwards, no renewal commission is modelled as the contract boundary is assumed to end immediately prior to renewal.

This methodology is different to that adopted for the previous valuation, which was based on a full allowance for renewal commission because a 12-month contract boundary was adopted for all policies.

Capital stresses (for the calculation of the Risk Margin)

While the SCR capital requirement does not directly contribute to the LTBP, it indirectly feeds into the calculation of the Risk margin. The capital stresses and correlation assumptions have been set in line with the Standard Formula basis under Solvency II.

D.3 Other liabilities

Other liabilities £000s	2018	2017
Trade creditors	389	384
Taxation & social security costs	1,228	1,176
Other creditors	1	0
Accruals	1,038	1,525
Defined contribution pension scheme accrual	51	38
Provision for unearned premiums	460	544
Total	**3,167**	**3,667**

No estimation methods, adjustments for future value or valuation judgements are required for these balances.

E. Capital management

E.1 Own funds

The objective of own funds management is to maintain, at all times, sufficient Own Funds to cover the SCR and MCR with an appropriate buffer as stated in the Society's risk appetite statement.

The Society's Own Funds are all tier 1 unrestricted and available to cover both the SCR and MCR. Own Funds at the year-end stood at £39.2m in contrast to £44.2m for 2017. This reduction is attributable to investment performance across both equity and fixed interest markets and an operating loss in 2018.

The Society monitors its SCR coverage after each quarterly valuation as required under Solvency II. The Risk Management Committee reviews solvency compared to risk appetite and reports through to the Board in line with its terms of reference. As part of Own Funds management, the Society prepares ongoing annual solvency projections as part of its ORSA Report that are based on the Society's business plans.

Although the Society is in a very strong financial position, it considers within its business planning process the options available to improve the capital position. These include:

- **De-risking** – the quickest source would be de-risking the investment portfolio. Market risk capital could be reduced substantially if the Society switched from higher risk investments to lower risk such as cash and gilts
- **Reinsurance** – reinsurance could be used to reduce capital requirements. However, as claims risk capital is less than £2m, and reinsurance would have its own costs, the release of capital would not be significant. However, it is still an option if solvency was seriously threatened
- **Mutual deferred shares bill** – due to the Society's strong financial position the Board has not spent significant time investigating the options available to the Society under this bill. However, it notes that it would be a possible avenue for raising capital
- **M&A** – in the worst case the Society could approach another insurer to seek a buyer or perform a merger. However, the Board strongly believes that it has the current capital and management team to avoid the Society being forced into this position

E.2 Solvency Capital Requirement and Minimum Capital Requirement

As at 31 December 2018, the Society's SCR was £10.0m and the MCR was £3.3m. The table below breaks down the components of the SCR at 31 December 2018:

SCR (£m)	2018	2017
Underwriting risk	2.3	2.5
Market risk	7.3	8.9
Default risk	0.1	0.2
Operational risk	1.8	1.7
Diversification benefit	(1.5)	(1.7)
Total SCR	10.0	11.5
SCR Coverage	390%	383%

Simplified calculations are not used for any of the risk modules or sub-modules.

The table below shows the inputs into the MCR calculation as at 31 December 2018:

MCR (£m)	2018	2017
Linear MCR	0.7	0.8
SCR	10.0	11.5
MCR cap	4.5	5.2
MCR floor	2.5	2.9
Combined MCR	2.5	2.9
Absolute floor of the MCR	3.3	3.3

As previously stated the Society is in a strong financial position and has adequate capital coverage.

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

This duration-based equity risk sub-module has not been applied.

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

This does not apply because as at 31 December 2018 the Society used the Standard Formula to derive its SCR.

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

The Society has complied with both the MCR and SCR during the period.

F. Directors' responsibility statement

The Board of Management are responsible for preparing the Solvency and Financial Condition Report in accordance with the Prudential Regulation Authority rules and the Solvency II Regulations.

We are satisfied that:

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

b) it is reasonable to believe that the Society has continued so to comply subsequently and will continue so to comply in future.

Courtney Marsh

Chief Executive

For and on behalf of the Board of Management of the Health Shield Friendly Society

Health Shield Friendly Society Ltd

Solvency & Financial Condition Report (SFCR)

Disclosures

31 December 2018

(Monetary amounts in GBP thousands)

General information

Undertaking name	Health Shield Friendly Society Limited
Undertaking identification code	213800F34K6DCPI55B10
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2018
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 – Balance sheet

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

S.05.02.01 – Premiums, claims and expenses by country

S.12.01.02 – Life and Health SLT Technical Provisions

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

	Assets	Solvency II value
		C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	3,783
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	35,890
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	531
R0100	*Equities*	6,578
R0110	*Equities – listed*	6,578
R0120	*Equities – unlisted*	
R0130	*Bonds*	18,866
R0140	*Government Bonds*	7,944
R0150	*Corporate Bonds*	10,922
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	9,916
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270:	Reinsurance recoverables from:	0
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	4,293
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	1,157
R0420	Any other assets, not elsewhere shown	611
R0500	**Total assets**	**45,733**

S.02.01.02 Balance sheet

Liabilities		Solvency II value C0010
R0510	Technical provisions – non-life	0
R0520	*Technical provisions – non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions – health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	3,410
R0610	*Technical provisions – health (similar to life)*	3,410
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	3,219
R0640	*Risk margin*	191
R0650	*Technical provisions – life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions – index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	460
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R078	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	309
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	388
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	2,010
R0900	**Total liabilities**	6,577
R1000	**Excess of assets over liabilities**	39,156

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

Life

			Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
			C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written										
R1410	Gross	44,678									44,678
R1420	Reinsurers' share	30									30
R1500	Net	44,647	0	0	0	0	0	0	0	0	44,647
	Premiums earned										
R1510	Gross	44,762									44,762
R1520	Reinsurers' share	30									30
R1600	Net	44,732	0	0	0	0	0	0	0	0	44,732
	Claims incurred										
R1610	Gross	31,180									31,180
R1620	Reinsurers' share										0
R1700	Net	31,180	0	0	0	0	0	0	0	0	31,180
	Changes in other technical provisions										
R1710	Gross	1,338									1,338
R1720	Reinsurers' share										0
R1800	Net	1,338	0	0	0	0	0	0	0	0	1,338
R1900	**Expenses incurred**	13,117	0	0	0	0	0	0	0	0	13,117
R2500	**Other expenses**										
R2600	**Total expenses**										13,117

S.05.01.02 Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
R1400		Home country	Top 5 countries (by amount of gross premiums written) – life obligations			Top 5 countries (by amount of gross premiums written) – life obligations		Total Top 5 and home country
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	44,678						44,678
R1420	Reinsurers' share	30						30
R1500	Net	44,647	0	0	0	0	0	44,647
	Premiums earned							
R1510	Gross	44,762						44,762
R1520	Reinsurers' share	30						30
R1600	Net	44,732	0	0	0	0	0	44,732
	Claims incurred							
R1610	Gross	31,180						31,180
R1620	Reinsurers' share							0
R1700	Net	31,180	0	0	0	0	0	31,180
	Changes in other technical provisions							
R1710	Gross	1,338						1,338
R1720	Reinsurers' share							0
R1800	Net	1,338	0	0	0	0	0	1,338
R1900	**Expenses incurred**	13,117	0	0	0	0	0	13,117
R2500	**Other expenses**							
R2600	**Total expenses**							13,117

S.12.01.02 Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including unit-linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**																0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**												3,219				3,219
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																0
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re												3,219	0			3,219
R0100	Risk margin											191					191
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole																0
R0120	Best estimate																0
R0130	Risk margin																0
R0200	**Technical provisions – total**											3,410					3,410

S.23.01.01 Own funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 un-restricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	39,156	39,156		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	0	0			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	39,156	39,156	0	0	
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own fund	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	39,156	39,156	0	0	0
R0510	Total available own funds to meet the MCR	39,156	39,156	0	0	
R0540	Total eligible own funds to meet the SCR	39,156	39,156	0	0	0
R0550	Total eligible own funds to meet the MCR	39,156	39,156	0	0	
R0580	**SCR**	10,043				
R0600	**MCR**	3,288				
R0620	**Ratio of Eligible own funds to SCR**	389.88%				
R0640	**Ratio of Eligible own funds to MCR**	1190.78%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	39,156				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	39,156				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	0				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) – Life business	464				
R0780	Expected profits included in future premiums (EPIFP) – Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	464				

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	7,324		
R0020	Counterparty default risk	95		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	2,334		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-1,501		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	8,253		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,790
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	10,043
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	10,043
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

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

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

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

S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010		
R0010	MCR_{NL} Result	0		
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
			C0020	C0030
R0020	Medical expense insurance and proportional reinsurance			
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			
	Linear formula component for life insurance and reinsurance obligations	C0040		
R0200	MCR_{L} Result	722		
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
			C0050	C0060
R0210	Obligations with profit participation – guaranteed benefits			
R0220	Obligations with profit participation – future discretionary benefits			
R0230	Index-linked and unit-linked insurance obligations			
R0240	Other life (re)insurance and health (re)insurance obligations		3,410	
R0250	Total capital at risk for all life (re)insurance obligations			929,397
	Overall MCR calculation	C0070		
R0300	Linear MCR	722		
R0310	SCR	10,043		
R0320	MCR cap	4,519		
R0330	MCR floor	2,511		
R0340	Combined MCR	2,511		
R0350	Absolute floor of the MCR	3,288		
R0400	**Minimum Capital Requirement**	3,288		

The best of health

Electra Way, Crewe Business Park, Crewe, Cheshire, CW1 6HS. | 01270 588555 | healthshield.co.uk