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CNA Insurance Company Limited 2020 Annual Report and Financial Statements



Registered in England and Wales: number 950

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Strategic report

Introduction

The directors of CNA Insurance Company Limited ("the Company" or "CICL") present their strategic report for the year ended 31 December 2020. This report has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

CICL is a commercial insurer offering a range of specialist products to targeted industry segments. The Company is headquartered in London and underwrites business throughout the United Kingdom ("UK") and the rest of the world outside of the European Union ("EU"). Direct and facultative commercial insurance products are underwritten, which are predominantly placed through brokers.

CICL's immediate parent undertaking is CNA Europe Holdings Ltd ("CNAE") which is wholly owned by Continental Casualty Company ("CCC") and The Continental Insurance Company ("CIC"). CCC and CIC are a part of CNA Financial Corporation ("CNAF") which, in turn, is controlled by Loews Corporation. References to "CNA" in this report are to CNAF and its group undertakings including CCC and CIC.

CNA is the one of the largest commercial property and casualty insurance companies in the United States of America ("US"). As of 31 December 2020, it has approximately 5,800 employees and its insurance products include commercial property and casualty coverages, including surety. CNA's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Overview of results

The Company reported a profit of £38.8 million for 2020 compared to a loss of £3.5 million for 2019. This improved result was driven primarily by favourable underwriting performance compared to the previous financial year. The calendar year combined ratio in 2020 was 85.3% (2019: 115.6%).

Gross written premiums increased from £184.8 million in 2019 to £221.1 million in the current year with increases in the majority of the Company's lines of business but primarily in the Specialty business unit.

The Company made further enhancements to its reinsurance programme during 2020 as part of the continuing process to ensure that reinsurance is utilised in an effective way to control volatility in underwriting results. The Company regularly evaluates its reinsurance programme to ensure it is appropriate given its overall risk appetite.

Favourable prior year loss development of £17.3 million was recorded in 2020 compared to unfavourable development of £22.0 million in the prior calendar year. In the current calendar year, the favourable loss development was driven primarily by lower emergence of claims of certain lines business than previously anticipated. The unfavourable development in the prior year was driven primarily by reserve strengthening in the professional liability class of business.

The Company shares its operating and management structure with two other group companies, Hardy (Underwriting Agencies) Limited ("Hardy") and CNA Insurance Company (Europe) S.A. ("CICE"). All three companies operate under a combined operating model with management and administrative services being provided by a related service company, CNA Services (UK) Limited ("CNA Services"), an indirect subsidiary of CNAF. The Company pays CNA Services a management fee for the provision of staff and administration services. Hardy is part of the CNAF group and CICE is 100% owned by CICL.

The expense ratio for the year of 34.1% reflected an improvement over the prior year of 37.1%. This was driven by a continued focus on the rigorous management of the expense base and lower levels of brokerage compared to prior the year.

Strategic report – continued

Overview of results - continued

The Company recorded other charges of £1.8 million. This includes foreign exchange losses of £2.3 million driven by the impact of revaluing non-functional currency assets and liabilities into functional currencies. Overall, the Company has a strategy of closely matching foreign currency assets and liabilities to mitigate the effects of exchange rate movements. Other charges also include an impairment charge with respect to the carrying value of the Company's investment in its subsidiary, CICE.

Key performance indicators

The Company uses a range of key performance indicators ("KPIs") to determine how well it is performing against its objectives and overall strategy.

The following KPIs have been deemed most relevant to demonstrating the Company's performance in 2020 and its financial position at the end of the year. The loss ratio is derived by taking claims incurred, net of reinsurance over earned premiums, net of reinsurance. The expense ratio references net operating expenses as a percentage over earned premiums, net of reinsurance.

	2020 £m	2019 £m
Gross premiums written	221.1	184.8
Profit/(loss) on ordinary activities before tax	41.4	(2.8)
Profit/(loss) for the financial year	38.8	(3.5)
Loss ratio	51.3%	78.5%
Expense ratio	34.1%	37.1%
Combined ratio	85.3%	115.6%
Capital and reserves	414.8	380.4

Financial position

Overview of financial position

The Company's accounted capital base as at 31 December 2020 was £414.8 million (2019: £380.4 million), of which £1.1 million is ineligible to meet regulatory requirements as this amount has been deposited in bonds with Lloyd's of London ("Lloyd's") as security for the underwriting activities of Hardy Underwriting Limited ("HUL"), a CNAF group company (see note 22).

The increase in the capital base of £34.4 million was driven by the profit after taxation of £38.8 million and favourable currency translation adjustments of £0.4 million, partly offset by the unfavourable impact of the re-measurement of the Company's net defined benefit pension scheme assets and liabilities of £4.8 million. The Company did not pay or recommend a dividend during the financial year. There were no changes to the Company's ownership or capital structure during the year.

Investments

The Company benefited from strong operating cash flows and, to the extent possible, these are re-invested in the Company's investment portfolio. The Company has processes to monitor operating cash flows, which ensure that investment returns are maximised, whilst maintaining adequate cash resources to meet operating expenses and claims.

The duration and currency profile of the investment portfolio is managed to broadly match that of the Company's underlying liabilities. CICL continues to invest predominantly in high grade corporate and government bonds in accordance with its stated investment strategy and in conjunction with its external investment manager Goldman Sachs Asset Management International ("GSAM").

Strategic report – continued

Financial position - continued

Deed of guarantee and ratings

CICL benefits from a Deed of Guarantee from CCC, effective 24 January 2002. Under the terms of the deed, CCC guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by CICL, including policies or contracts entered into before 24 January 2002. The Deed of Guarantee enables CICL to maintain a Standard & Poor's ("S&P") rating at the same level as the rating assigned to CCC and provides significant additional security to policyholders. The Deed of Guarantee has been in place since the effective date and will remain in place until 31 December 2022 unless written notice is received from S&P that the guarantee is no longer needed. As at 31 December 2020, CCC's S&P financial strength rating was A+ (Strong) with a stable outlook. Further details are provided in note 23 to these financial statements. The Deed of guarantee is also applicable to the Company's subsidiary CICE.

Capital and Solvency II

The Company manages its capital position in accordance with the requirements of the Solvency II regime and determines its capital requirement using the Standard Formula as the basis of calculation. As at 31 December 2020, the Company's admissible capital was in excess of the Solvency II Standard Formula requirement.

Business operations

The Company operates through branch offices that have been established in the UK regions as well as from its head office in London.

CICL interacts with other entities within the CNA group, both in Europe and in the United States, to develop its business and service its multi-national customers. As a result of these activities and its branch network, the Company is well placed to enhance and grow its business.

Underwriting staff, management and certain support functions are located in branch offices and in the head office in London. Additional support services are provided from offices in the UK regions.

Corporate governance

Ultimate responsibility for the Company's affairs rests with the Board of directors. The Board is responsible for approving the Company's business plan and its strategies with regard to risk management. The Board provides leadership based on a framework of controls and risk management disciplines and sets the Company's risk appetite. The Board also seeks to ensure compliance with all relevant internal and external regulations governing CICL's activities. The Board meets quarterly and consists of both CNA appointed directors and independent non-executive directors including an independent Chair. The Company continuously engages with CNA as its shareholder through Board and executive management meetings.

The Board operates with three principal committees: an Audit Committee, a Risk Committee and an Underwriting Committee. Each committee has clear terms of reference for the matters for which it is responsible and reports to the Board. The Board, Audit Committee and Risk Committee are chaired by an independent non-executive director. The Underwriting Committee is chaired by the Chief Executive Officer. The corporate governance framework is reviewed and approved by the Board at least annually to ensure its continued effectiveness.

The Board ensures decision making is sufficiently informed through the Committee structure and regular Board meetings with comprehensive information presented by management.

CICL is authorised and regulated by the Prudential Regulatory Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA"). The Company works closely with these regulatory bodies to ensure it is compliant with all legal and regulatory requirements. The principal regulatory risk to the Company is the loss of its regulatory approvals which would prohibit it from carrying on its business.

Strategic report – continued

Future developments

The Company aims to provide differentiated products to meet the needs of its targeted customer segments through its distribution channels. Focus is also being given to further development of international capabilities across all lines of business.

Streamlined energy and carbon reporting

In 2020, the Company's UK Greenhouse gas ("GHG") emissions were 201 tonnes of CO₂e ("tCO₂e") with 809,524 kWh of total energy consumed, which equates to 6,605 kWh per employee, based on the average number of CNA Services employees in 2020. The Company calculates GHG emissions using the Department for Business, Energy and Industrial Strategy BEIS conversion factors where possible. Scope 1 emissions relate to the use of company owned vehicles. Emissions associated with energy usage from offices are reported as Scope 2. Scope 3 sources include business travel by air, rail, taxi or mileage claims from employee owned vehicles, water usage and waste removal. No comparative data is presented as this is the first year that the Company has disclosed this information. Data have been collated from a number of sources. Scope 1 and 3 emissions data have been sourced from our booking agent partner as well as invoices and expense claims in our accounting system. Source 2 emissions have been sourced from utility bills and lease agreements.

	2020 tCO ₂ e
Scope 1 emissions	3
Scope 2 emissions	169
Scope 3 emissions	29
Total emissions	201
tCO₂e per employee	1.6

Section 172(1) statement

This statement describes how the directors have fulfilled their responsibility to promote the success of the Company under s172(1) of the Companies Act 2006. The Board has identified that its key stakeholders are staff, the shareholder, customers, broking partners and regulators.

The Company's long term strategy is to build sustainable long-term profitability in its chosen markets and segments. Key decisions taken by the Board are aimed at the achievement of that aim, taking into account economic, market and regulatory factors, including ensuring that CICL maintains appropriate levels of capital resources. The Company's long term plan is set out in conjunction with its Own Risk and Solvency Assessment ("ORSA") which is discussed in more detail in Note 3 to the Company's accounts.

During the course of the year, the Board collectively considers the wider long term impact on all of the Company's stakeholders of all significant strategic and operational decisions.

The Company supports, via CNA Services, chosen charitable organisations. In addition, all staff are encouraged to utilise a Company funded volunteering day to support community charities. The report and financial statements of CNA Services provides further details on how the group engages with its employees.

The Company engages with its shareholder in a number of different ways. The Board includes CNA appointed members who participate in all key strategic and operational decisions. In addition, CNA is **directly involved in the Company's other committees, groups and forums**. This year, additional CNA senior executives have been appointed as members of the Underwriting Committee. There is also additional representation from the CNA non-executive directors on the Audit and Risk Committees.

Strategic report – continued

Section 172(1) statement - continued

The Company distributes its insurance products primarily through its network of national and regional brokers. The Company regularly monitors its relationships with its broking partners and customers and aims to build successful long term relationships in this regard. CICL is committed to ensuring that it conducts its business based on values that promote a culture that places significant importance on integrity and fairness in its interactions with policyholders and business partners.

The Company engages with its key regulators with communication being facilitated through the compliance team and members of the executive team. Meetings and other communications with regulators are on an ad-hoc basis and when requested. All significant regulatory matters are reported to the Board.

CICL is committed to ensuring that its culture, strategy, leadership, decision making and control framework are all central to the reasonable expectations of, and reflect the fair treatment of, its policyholders. CICL continues to reassess all aspects of its commitment to its customers to ensure that these values are maintained.

Principal risks and uncertainties

The Company's appetite for accepting and managing risk is defined by the Board.

The Chief Risk Officer has responsibility for ensuring an effective risk management process is in place and is assisted by the Risk Management function. The Company has developed a risk and control framework which is built on an Enterprise Risk Management ("ERM") model with each business unit responsible and accountable for aspects of risk management within their area.

The risk management framework includes the processes for identifying risks (including those emerging), an assessment of those risks, and the setting of tolerances for risks, as well as the modelling, monitoring and mitigating of risks. The scope of risks considered includes all internal and external risks that affect the Company whether quantifiable or not.

Set out below are the principal risks and uncertainties to which the Company is exposed. Further information on how the Company manages risk is disclosed in note 3 to these financial statements. Due to the establishment of CICE there is no material impact to the principal risks from the UK leaving the EU ("Brexit").

Strategic risk

Strategic risk is the potential impact on earnings or capital from an incorrect strategy being set, improper business decisions, failure to execute plans or strategic ambitions, lack of responsiveness to industry changes and ill-disciplined growth in a soft market. Any event which would have an adverse impact on the reputation of the Company would also rank as a strategic risk. Annual business plans are agreed by senior management and the Board and tracked against actual performance throughout the year.

Insurance risk

Insurance risk is the risk associated directly with the Company's underwriting activities. This would include the risk associated with inaccurate or inadequate pricing of insurance policies, inappropriate or poorly controlled underwriting guidelines and authority limits, unexpectedly high frequency or severity of claims experience and inadequate or inaccurate loss reserving.

The Company has in place controls and governance processes designed to monitor its underwriting activities. These include, but are not limited to, the operation of the Underwriting Group, Reserving Group and Exposure Management Group, the issuance of underwriting authority limits and guidelines, the extensive use of technical pricing models, and regular underwriting audits.

Strategic report – continued

Principal risks and uncertainties – continued

Financial risk – Credit, Market and Liquidity

Financial risk includes the risks associated with investment activities, credit, liquidity and foreign currency exchange. Investment risk includes the impact of market volatility on asset values associated with interest rate volatility. Other notable exposures are bond default risk (the risk that an issuer of a bond may be unable to make timely principal and interest payments) and reinsurer default risk (the risk that the Company's reinsurers would be unable or unwilling to pay their share of reinsurer liabilities).

The Company manages investment risk through an Investment Group, responsible for establishing and maintaining an investment policy in line with the risk appetite of the Company. In addition, the group is responsible for the management of all investment asset risks, the selection of its investment manager and reviewing investment performance.

Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events. Risks include those from IT related activities (including cyber), legal and regulatory, financial reporting and financial crime as well as those from operations, outsourcing and change.

The Company has a business continuity plan and IT disaster recovery plan. There are appropriate business processes and relevant internal controls in place to mitigate operational risk.

Emerging risks

The Company has processes in place to monitor and manage new and emerging risks associated both directly with its insurance activities and with the wider business and economic environment. The Company also monitors potential emerging risks resulting from changes to the regulatory environment. Where appropriate, the Company undertakes risk management activities to mitigate emerging risks.

Climate change

The Company has reviewed and considered the requirements of the PRA supervisory statement SS3/19 with respect to managing the risks from climate change and is taking steps to address these requirements.

Directors' report

Directors

The directors who have held office since 1 January 2020 and up to the date of signing are as follows:

Executive Directors

D Brosnan (resigned 31 August 2020)
 P Hamer
 C Kearney
 J Rehman
 D Stevens
 A Williams

Non-executive Directors

J Anderson (resigned 25 February 2020)
 A D'Hulster
 J Gonzalez (appointed 31 March 2020)
 H Thomas
 R Thomson
 D Worman

Directors' responsibility statement

The directors are responsible for preparing the Annual Report in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice ("GAAP") (UK accounting standards and applicable law) including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and FRS 103: Insurance Contracts ("FRS 103"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are: sufficient to show and explain the Company's transactions; disclose with reasonable accuracy at any time the financial position of the Company; and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Results and dividends

For the 2020 year the Company reported an after-tax profit of £38.8 million (2019: loss of £3.5 million). The accounted capital base of the Company as at 31 December 2020 was £414.8 million (2019: £380.4 million).

The directors have not recommended the payment of a dividend for the year ended 31 December 2020 (2019: £nil).

Directors' report – continued

Business relationships

This is covered in the Section 172(1) statement in the Strategic report.

Employee engagement

This is covered in the Section 172(1) statement in the Strategic report.

Streamlined energy and carbon reporting

This is covered in the Strategic report.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Elective resolutions

The Company has elected to dispense with the laying of financial statements before the shareholders in general meeting, the holding of an annual general meeting, and the obligation to appoint an auditor annually.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company.

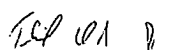
Information included in Strategic report

In accordance with section 414C(11) of the Companies Act, the Company has chosen to set out the following information in the strategic report which would otherwise be required to be contained in the directors' report:

- information on the financial risk management objectives and policies;
- indication of the exposures to relevant key risks; and
- indication of likely future developments in the business of the Company.

Approval

Approved by the Board of directors and signed on its behalf by:



J Rehman
Director
20 Fenchurch Street,
London EC3M 3BY
4 March 2021

Independent Auditor's report to the members of CNA Insurance Company Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of CNA Insurance Company Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and Financial Reporting Standard 103 "Insurance Contracts".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's report to the members of CNA Insurance Company Limited – continued

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was the valuation and allocation of the professional liability class IBNR provision.
Materiality	The materiality that we used in the current year was £8.3 million which was determined on the basis of 2% of net asset value less ineligible funds.
Scoping	Audit work to respond to the risks of material misstatement was performed by the audit engagement team with actuarial specialist involvement.
Significant changes in our audit approach	The basis for materiality changes from 2% of Solvency II available regulatory capital to 2% of net asset value less ineligible funds. There were no other significant changes to our approach in the current year.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Assessing management's paper summarising the key points considered, including performance, capital position and the impact of Covid-19 on the company's operations and balances, in concluding the going concern basis is appropriate. Our assessment included comparing data presented by management against tested balances and our own assessment of the impact of Covid-19 on the operations and loss reserves specifically;
- Assessing the net asset position of the company as at 31 December 2020 by comparing the net asset position to the Solvency Capital Requirements ("SCR") in order to understand the company's capital position;
- Assessing whether forecasts prepared by management for the next 12 months support the going concern, taking in to account the historical accuracy of such forecasts in relation to prior year's performance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's report to the members of CNA Insurance Company Limited – continued

Valuation and allocation of professional liability class IBNR provisions	
Key audit matter description	<p>CNA Insurance Company Limited recognised a provision for claims incurred but not reported ('IBNR') totalling £261m (2019: £248m); a provision for professional liability claims forms a subset of this balance.</p> <p>The accounting policies applied to IBNR can be found in note 1 on page 28. IBNR disclosure can be found in note 18 on page 65.</p> <p>We have determined that the key audit matter within the technical provisions is the valuation of the professional liability class of business, which requires significant judgment in the selection of claims data utilised, spreadsheet models built, actuarial methodologies and assumptions, including selection of the Initial Expected Loss Ratios (IELRs), due to the uncertainty and limited experience in the development of the business written. This key audit matter also relates to a risk of fraud, due to the high level of uncertainty and subjectivity of management judgements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of internal controls around the reserving cycle by performing walkthroughs of management's controls over the data, models, methodology and assumptions used to determine the reserves.</p> <p>Working with our in-house actuarial specialists, we performed the following procedures in line with the revised ISA 540 standard on auditing complex estimates:</p> <ul style="list-style-type: none"> • Data: We have reconciled the data which has been used in the actuarial reserves to the premiums and claims breakdowns that we have used as part of our substantive testing. As part of our claims and premiums testing we have tested specific attributes such as class of business, inception and loss date. In addition, we tested the completeness and accuracy of exposures underpinning the calculation and performed a challenge of the reserves, specifically the incurred estimate through the review of a sample of claims files. • Model: To test the accuracy of the spreadsheet models used by management, we performed some limited replication of management's modelling using our own modelling tool. • Methodology & Assumptions: <ul style="list-style-type: none"> - We analysed whether the reserving methodology selected by management is appropriate. We used CICL's development data and our own internal benchmarks to assess the assumptions used. This included comparing the IELRs selected by management against historical experience and internal/external benchmarks. - We assessed other evidence corroborative to management's booked estimate, such as 2020 incurred claims development and settlement negotiations; and - We evaluated a balance of contradictory and corroborative evidence supporting management's reserve set, including specific focus on reserve sufficiency and management margin for certain classes and in the context of the reserve book as a whole.
Key observations	<p>We have determined that the valuation of the professional liability class of IBNR is appropriate.</p>

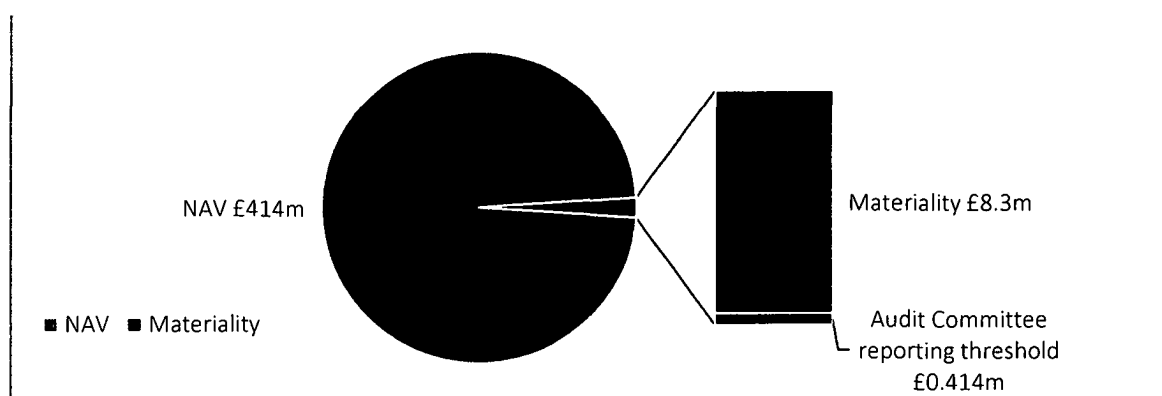
Independent Auditor's report to the members of CNA Insurance Company Limited – continued

Our application of materiality

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

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

Materiality	£8.3 million (2019: £6.0 million).
Basis for determining materiality	2% of net asset value less ineligible funds (2019: 2% of Solvency II available regulatory capital).
Rationale for the benchmark applied	It was determined that net asset value less ineligible funds would be the most appropriate measure for materiality as the most important attribute of a long tail insurer is its ability to pay claims. The change in materiality base, while still on a net assets or equity focus, aligns more closely to market practice and the focus areas of the users of the UK GAAP financial statements.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 67.5% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment and whether we were able to rely on controls;
- the additional uncertainties created by COVID-19.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £414k (2019: £301k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's report to the members of CNA Insurance Company Limited – continued

An overview of the scope of our audit

The scope of the audit was determined by obtaining an understanding of the entity and its environment, including internal controls.

The audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Further we have risk assessed each balance within the financial statements considering the likely frequency and severity of material misstatements in determining the extent of audit procedures to be performed.

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's report to the members of CNA Insurance Company Limited – continued

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: valuation of the professional liability IBNR provision. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, HRMC legislation and pension legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's regulatory solvency requirements.

Independent Auditor's report to the members of CNA Insurance Company Limited – continued

Audit response to risks identified

As a result of performing the above, we identified valuation and allocation of professional class of IBNR as a key audit matter. The key audit matters section of our report explains the matter in more detail and describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with PRA, FCA and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Independent Auditor's report to the members of CNA Insurance Company Limited - continued

Other matters

Auditor tenure

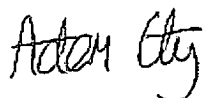
Following the recommendation of the audit committee, we were appointed by Maritime Insurance Company Limited (now CNA Insurance Company Limited) on 30 June 1998 to audit the financial statements for the year ending 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 23 years, covering the years ending 31 December 1998 to 31 December 2020.

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Adam Ely FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
4 March 2021

All the amounts above are in respect of continuing operations.
The Notes 1 to 25 form an integral part of these financial statements.

Profit and loss account - Non-technical account

	Notes	2020 £'000	2019 £'000
Balance on the technical account for general business		22,469	(22,603)
Income from investments		15,385	16,195
Realised gains on investments		1,220	514
Realised losses on investments		(5,020)	(4,467)
Unrealised gains on investments		(4,732)	4,929
Unrealised losses on investments		14,354	5,805
Investment management expenses		(456)	(425)
Interest expense		(23)	(1)
Total investment return		20,728	22,550
Other charges	8	(1,802)	(2,708)
Profit/(loss) on ordinary activities before tax	9	41,395	(2,761)
Tax on profit/(loss) on ordinary activities	10	(2,561)	(700)
Profit/(loss) for the financial year		38,834	(3,461)

All the amounts above are in respect of continuing operations.

The Notes 1 to 25 form an integral part of these financial statements.

Statement of comprehensive income

	Notes	2020 £'000	2019 £'000
Profit/(loss) for the financial year		38,834	(3,461)
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of the net defined benefit pension scheme asset	16	(5,594)	(5,125)
UK Deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	16	855	617
Currency translation differences		384	(298)
Total comprehensive income/(expense) for the year		34,479	(8,267)

All the amounts above are in respect of continuing operations.

The Notes 1 to 25 form an integral part of these financial statements.

Statement of changes in equity

	Share capital £'000	Profit and loss account £'000	Total shareholder's equity £'000
Balance at 1 January 2020	130,200	250,154	380,354
Total comprehensive income for the year			
Profit for the financial year	-	38,834	38,834
Other comprehensive expense			
Remeasurement of the net defined benefit pension scheme asset	-	(5,594)	(5,594)
UK deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	-	855	855
Currency translation differences	-	384	384
Total comprehensive income for the year	-	34,479	34,479
Balance at 31 December 2020	130,200	284,633	414,833

	Share capital £'000	Profit and loss account £'000	Total shareholder's equity £'000
Balance at 1 January 2019	130,200	258,421	388,621
Total comprehensive expense for the year			
Loss for the financial year	-	(3,461)	(3,461)
Other comprehensive expense			
Remeasurement of the net defined benefit pension scheme asset	-	(5,125)	(5,125)
UK Deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	-	617	617
Currency translation differences	-	(298)	(298)
Total comprehensive expense for the year	-	(8,267)	(8,267)
Balance at 31 December 2019	130,200	250,154	380,354

The Notes 1 to 25 form an integral part of these financial statements.

Balance sheet

Assets	Notes	31 Dec 2020 £'000	31 Dec 2019 £'000
Shares in group undertakings	11	192,735	173,398
Other financial investments - debt securities and other fixed income securities	12	548,178	509,175
Investments		740,913	682,573
Reinsurers' share of provision for unearned premiums	13	21,417	16,034
Reinsurers' share of claims outstanding	13	96,165	61,156
Reinsurers' share of technical provisions		117,582	77,190
Debtors arising out of direct insurance operations - intermediaries		57,682	44,223
Debtors arising out of reinsurance operations		871	1,984
Other debtors	14	3,525	11,688
Debtors – amounts falling due within one year		62,078	57,895
Cash at bank and in hand		54,238	43,873
Other assets		54,238	43,873
Accrued interest		6,199	6,612
Deferred acquisition costs	15	15,709	13,803
Other prepayments and accrued income		207	326
Prepayments and accrued income		22,115	20,741
Total assets excluding pension asset		996,926	882,272
Pension asset	16	-	1,698
Total assets		996,926	883,970

The Notes 1 to 25 form an integral part of these financial statements.

Balance sheet – continued

Liabilities	Notes	31 Dec 2020 £'000	31 Dec 2019 £'000
Called up share capital	17	130,200	130,200
Profit and loss account		284,633	250,154
Capital and reserves		414,833	380,354
Provision for unearned premiums	18	109,755	90,232
Claims outstanding	18	424,251	384,457
Technical provisions		534,006	474,689
Provisions for other risks	19	219	186
Creditors arising out of direct insurance operations		2,582	3,704
Creditors arising out of reinsurance operations		21,358	17,501
Other creditors including tax and social security	20	19,501	5,310
Amounts owed to credit institutions		-	97
Creditors – amounts falling due within one year		43,441	26,612
Reinsurers' share of deferred acquisition costs		1,000	752
Other accruals and deferred income		1,497	1,377
Accruals and deferred income		2,497	2,129
Total liabilities excluding pension liability		994,996	883,970
Pension liability	16	1,930	-
Total liabilities		996,926	883,970

The Notes 1 to 25 form an integral part of these financial statements.

Registered in England and Wales: number 950

These financial statements were approved by the Board of directors on 4 March 2021 and signed on its behalf by:



D Stevens
Director

Notes to the financial statements

1. Accounting policies

Corporate information

CICL (registered number 950) is a private company limited by shares incorporated in England and Wales and is resident for tax purposes in the UK. The address of the registered office is 20 Fenchurch Street, London, EC3M 3BY.

Basis of accounting

The financial statements have been prepared in accordance with FRS 102 and FRS 103 and are produced in accordance with the Companies Act 2006. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

The financial statements have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board has reviewed the Company's projections for the next twelve months and beyond, including cash flow forecasts and regulatory capital surplus.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, and information regarding the financial position of the Company, its cash flows and liquidity position, are set out in the strategic report on pages 3 to 9. In addition, notes 3 and 12 to the financial statements include: the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Measurement convention

The financial statements are prepared on the historical cost basis, as modified by the revaluation of financial instruments at fair value through the profit and loss account.

Group financial statements

The Company is exempt under section 401 of the Companies Act 2006 from preparing group financial statements as it is an indirect wholly owned subsidiary of CNAF, incorporated in the US, which prepares consolidated financial statements that contain the results of the Company. Accordingly, these financial statements present information about the Company as an individual undertaking and not about its group.

Disclosure exemption

The Company is included in the consolidated financial statements of CNAF, a company incorporated in the United States of America, whose consolidated financial statements are publicly available. Consequently, the Company has, in compliance with FRS 102, therefore taken advantage of the disclosure exemptions available to it in relation to the presentation of a cash flow statement, remuneration of key management personnel, and related party transactions.

Notes to the financial statements – continued

1. Accounting policies – continued

Foreign currencies

The Company still maintained two branches in Europe during 2020. Both European branches are in run-off and no new business was underwritten through them in the year. The financial statements of these branches are maintained in their functional currency, being the currency of the primary economic environment in which the branch operates. Typically, the functional currency and the currency of the primary economic environment is the currency of the country in which the entity is located.

Foreign currency transactions are converted to functional currency using the exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates and the resultant differences are recognised as gains and losses in other income in the profit and loss account.

The presentational currency of the Company's financial statements is Pounds Sterling which is rounded to thousands. The functional currency financial statements of foreign branches are translated to Pounds Sterling as follows. Income and expenses are translated to Pounds Sterling using the exchange rates prevailing at the date of the underlying transactions. Assets and liabilities are translated at year end exchange rates. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction. All resulting exchange differences are recorded as currency translation differences in the statement of comprehensive income and reflected in the currency translation reserve.

Basis of accounting for underwriting activities

Contracts are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay benefits that were significantly greater than the premium received. Such contracts may also transfer financial risk. Investment contracts are contracts that carry financial risk with no significant insurance risk.

Premiums

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums on contracts incepting in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Company not yet notified.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct inward business.

The amount due, but not paid, is included in insurance and reinsurance debtors in the balance sheet.

Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to the unexpired period of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and the directors therefore consider that its provisions for claims outstanding and related reinsurance recoveries are fairly stated. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Any adjustment made to amounts for claims provisions in respect of prior years is included in the technical account within the financial statements of the period when such adjustment is made.

Notes to the financial statements – continued

1. Accounting policies - continued

Deferred acquisition costs

Acquisition costs comprise the direct expenses of concluding insurance contracts underwritten during the financial year. Acquisition costs are deferred and amortised over a period equivalent to that over which the underlying business is underwritten, and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. The Company defers only those acquisition costs which are directly related to the conclusion of insurance contracts as calculated separately for each class of business.

Liability adequacy test

At each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the profit and loss account as an impairment of any associated deferred acquisition costs and, where these are fully depleted, via the provision for unexpired risks. The adequacy of the provision for unexpired risks is calculated separately by reference to classes of business that are managed together, after taking into account relevant investment return.

Leases

All lease contracts are assessed to determine whether they constitute finance leases or operating leases. The Company has no assets held under finance leases or hire purchase transactions.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Provisions for dilapidations are recognised on a lease by lease basis and are based on the Company's best estimate of the likely committed cash outflow.

Employee benefits

Defined benefit pension schemes

For defined benefit schemes the amounts charged to the profit and loss account are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. Net interest on the net defined benefit liability (asset) is reflected in other finance costs or credits.

Re-measurements of the net defined benefit asset include: actuarial gains and losses, the return on plan assets excluding amounts included in the net interest on the net defined benefit asset in the profit and loss account; and any changes in the effect of the asset ceiling, are recognised immediately in the statement of comprehensive income.

The defined benefit schemes are funded, with the assets of the schemes held separately from those of the Company, in separate, trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Notes to the financial statements – continued

1. Accounting policies - continued

Defined contribution pension schemes

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Investment return

All investment return is recognised in the non-technical account.

Investment income comprises interest and dividends and realised gains and losses on investments. Interest is recognised on an accrual basis and dividends are included on an ex-dividend basis.

Realised gains or losses represent the difference between the net sales proceeds and purchase price.

Interest payable and expenses incurred in the management of investments are accounted for on an accrual basis.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the statement of balance sheet date.

Financial assets and liabilities

The Company recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition, the Company determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the instruments are acquired.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the financial statements – continued

1. Accounting policies – continued

Although permitted by its investment guidelines, the Company does not normally hold or issue derivative financial instruments for trading purposes or to hedge its exposure to foreign exchange risk or interest rate risk. This position is regularly reviewed by the Investment Group. No derivative financial instruments were held or issued during the current or preceding financial year.

Purchases and sales of securities and currencies are recognised on the trade date – the date on which the Company commits to purchase or sell the asset.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and all the risks and rewards of ownership of the asset to another entity.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

An impairment loss is reversed if there is new information which results in a change in the estimates used to determine the estimated future cash flows. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows has not been adjusted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognised in the profit and loss account.

Impairment (non-financial assets)

The carrying amount of the Company's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the profit and loss account.

An impairment loss is reversed if there is new information which results in a change in the estimates used to determine the recoverable amount, being the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows has not been adjusted.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Investment in group undertakings

Investments in group undertakings are valued at cost less provision for impairment. Any change in the carrying value is calculated annually with reference to each subsidiary's UK GAAP net book value and recognised in the profit and loss account.

Notes to the financial statements – continued

2. Critical accounting judgements and key sources of estimation uncertainty

The Company makes critical accounting judgements that affect the reported amounts of assets and liabilities during the financial year. Key sources of estimation uncertainty are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Critical accounting judgements and key sources of estimation uncertainty in applying accounting policies are continually evaluated for appropriateness. Actual results may differ from these estimates.

Key sources of estimation uncertainty

Estimates are regularly reviewed and any revisions to accounting estimates are recognised in the period in which the revision has occurred.

Outstanding claims provisions and related reinsurance recoveries

The Company's estimates for reported and unreported losses and the resulting provisions and related reinsurance recoverables are continually monitored, and updated based on the latest available information. Adjustments resulting from updated reviews are reflected in the profit and loss account. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. Estimation of claims provisions is a complex process, however, and significant uncertainty exists as to the ultimate settlement of these liabilities.

The most critical gross estimate included within the Company's balance sheet is the estimate for losses incurred but not reported ("IBNR") – both gross and reinsurers' share. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims and related recoveries from reinsurers. The total estimate as at 31 December 2020 is £261.0 million (2019: £248.2 million) and is included within technical provisions in the balance sheet. The estimate for reinsurers' share of IBNR is £62.8 million (2019: £45.6 million).

The Company's estimate for unallocated loss adjustment expenses is based on an actuarial study at 31 December 2020 was £8.8 million (2019: £7.2 million).

Critical accounting judgements

There are no critical accounting judgements.

Notes to the financial statements – continued

3. Risk management

The Company operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The narrative below describes how the principal risks of the Company are managed.

Risk definition

Risk exists as a consequence of uncertainty and is present in all activities regardless of their size or complexity. Risk is the uncertainty associated with the delivery of the Company's objectives, resulting in either a positive or negative outcome.

The Company faces numerous risks to its business from both internal and external sources. These risks have the potential to impact the achievement of the Company's strategic and operational objectives. Successful risk management enables the Board to understand and manage the uncertainty, and associated risk and opportunity, to which the Company is exposed.

Risk statement

The Company considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk provides an essential contribution towards the achievement of the Company's strategic and operational objectives and goals.

The Board is responsible for risk management within the Company, and communicates its risk strategy through a risk appetite statement.

Risk management is an integral part of the Company's decision-making and routine management, and is incorporated within the strategic and operational planning processes at all levels across the business. Employees are expected to manage risk as defined through their roles. This ensures that an assessment of risk remains central to decision-making. The Risk Management Function maintains a governance framework and a risk register to support the assessment of risk within the business. This includes investigation and challenge around issues and events which may affect the Company's understanding or management of risk.

Risk assessments are conducted on new ventures and activities, including projects, processes, systems and commercial activities to ensure that these are aligned with the Company's objectives and goals. Any risks or opportunities arising from these assessments are identified, analysed and reported to the appropriate management level.

Notes to the financial statements – continued

3. Risk management - continued

Risk Appetite

The Company's risk appetite statement reflects the Company's risk profile, business strategy and financial goals. It describes the level and types of risk the Company is prepared to bear.

Risk appetite is set by the Board at a level that is most appropriate in the context of the Company's strategy and capital constraints. The risk appetite statement sets out the types and overall amount of risk which are acceptable to achieve the business strategy. Risk appetite is an expression of the need to both limit exposure to unacceptable risks and to assume risks for which the company is well positioned to make returns from managing risk effectively.

The strategic appetite statements provide high level guidance, under:

- Capital;
- Liquidity;
- Earnings; and
- Reputation.

Detailed appetites statements provide further guidance on the levels of risk acceptable in the various risk categories. The detailed appetite statements follow the risk register categorisation and hence provide the limits (for risks which can be controlled) and escalation points (for risks which can only be monitored) for each risk type.

ORSA

The ORSA is a process for the Company to identify and assess all material risks that may impact the Company's ability to meet, over the full business planning period, its strategic objectives and obligations and to ensure sufficient capital is maintained, on a continuing basis, to meet these risks.

Assessments are forward-looking, taking into account the business plan, long term plan and projections. The assessment is performed regularly and without any delay following any significant change in the risk profile, with the outcome of the assessment informing strategic decisions.

There are seven distinct categories of risk segmented into four high level categories: Insurance risks (Underwriting and Reserving), Finance risks (Credit, Market and Liquidity), Operational risks and Strategic risks. The key mitigation activities against these risk categories are described below.

The Company operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The discussion below describes how the principal risks of the Company are managed.

The risk register is central to the management of risk at the Company. The Risk Management Function works with risk owners to agree the material risks to which the Company is exposed, as well as the relevant sub-risks, controls and key risk indicators against each risk. The suite of risks on the register makes up the universe of risks within the Company.

Notes to the financial statements – continued

3. Risk management - continued

Business review of risk and the 'three lines of defence' governance model

The Company deploys the three lines of defence governance model. In the first line, risk is managed and monitored by those that have a responsibility for risk taking or decision making. Second line monitoring occurs through the Risk and Compliance functions and the Risk Committee, and is evidenced through risk reporting. Third line monitoring is through Internal Audit, supported by external audit and independent experts.

The primary method for identifying, assessing and managing risk in the Company is through the first line of defence review of risk taking and/or decision making activity. Employees are expected to manage risk as defined by their role. A formal risk review takes place at least quarterly where the risk and control performance and relevance are considered. Indicators and appetites may be refreshed more regularly and will prompt ad-hoc reviews where they fall outside agreed tolerances.

Emerging and developing risk

Emerging risks are defined as conditions, situations or trends that could impact the financial strength, competitive position or reputation of the Company, within a defined future timescale, and for which probability of occurrence and extent of impact are in the process of being understood and quantified.

To differentiate emerging risks from material risks that are already tracked, emerging risks are those where:

- The likelihood and impact may not be fully quantified; and/or
- The business is monitoring the risk, but is not able to actively manage it.

Emerging and developing risks are related to any potential changes in the environment, or in the understanding of the environment, which could positively or negatively impact the Company's ability to meet its short or longer term plans.

The purpose of actively researching and discussing developing risk as a business is to be able to identify and benefit from new opportunities ahead of the Company's peers, and to avoid or mitigate potential threats to the Company's business performance.

Risk quantification and modelling

The Company's economic capital model provides a tool to quantitatively assess the material risks to which the Company is exposed. The model encompasses the processes and methodologies in place for quantifying the risks faced by the Company as well as the data, assumptions, applied expert judgements, model outputs and the systems of governance and independent validation. The economic capital model is not used to set regulatory capital.

Capital management

The Company manages its capital position in accordance with the requirements set out in the Solvency II Standard Formula, which is used as the basis of calculation. As at 31 December 2020, the Company's admissible capital was in excess of the Solvency II Standard Formula requirement.

Supplementary to the standard requirements for measuring capital set by the PRA, the Company also assesses capital using its own economic capital model.

Insurance risk

Insurance risk is the assumption of risk by an insurer from the individuals or organisations who are directly subject to the risk concerned.

There are inherent uncertainties in assuming insurance risk, some of which relate to the scope of coverage and the understanding of that scope by the insurer. The principal uncertainty, however, is associated with frequency and severity of claims and with the potential for these to be greater than expected. Insurance events are subject to fortuity and are therefore, by their very nature, random as to number and size.

Insurers put in place strategies to manage insurance uncertainties and the framework utilised by the Company is outlined below.

Notes to the financial statements – continued

3. Risk management - continued

Insurance risk - continued

Underwriting risk

Underwriting risk represents risk associated with the continuing acceptance of insurance policies by the Company. This relates to the uncertainty as to whether premiums received will be sufficient to cover future incurred losses, including expenses as well as risks associated with potential volatility in claims experience.

Processes used to manage underwriting risk include the setting of underwriting and pricing standards and limits on risk-taking. The Company also monitors and manages its natural catastrophe exposures and uses catastrophe modelling software in order to assess its risk. Where necessary, reinsurance is used to mitigate and transfer risk falling outside risk appetite. Additionally the Company employs a business model that achieves diversification through the spread of business across territories and sectors. The Underwriting Group is responsible for the management of underwriting risk, reporting to the Board.

Control of aggregating exposures

Measurement and control of exposures are the means by which volatility within the portfolio is constrained. It goes to the heart of the business' appetite for risk since exposures are contained at a level that represents the extent to which the Company is prepared to bear a net loss. Within an insurance business, aggregations of risk may arise from a single insurance contract or through a number of related contracts. Whilst some level of claims activity from these aggregations is expected on a regular basis, certain events, or a series of events, may occur that stress the business financially. Examples of such events are damage to property by fire and liability losses. The extent of the impact may also be very dependent on the size and location of the insured events.

Control of aggregating exposures in vulnerable locations is clearly vital, and is the key to maximising the potential for good underwriting profit in loss free periods without, on the downside, over-exposing capital to the impact of large and costly events. Factors which would impact the assumption of risk in these circumstances include an appropriate pricing of risk, a spread of risk across geographical territories and the availability, subject to cost, of a suitable reinsurance programme. The Company determines the maximum total exposure levels to a range of events that it is prepared to accept. Beyond this level, no further exposure may be assumed. At any point in time, the current exposure position for the underwriting portfolio is available to underwriters to enable them to assess the impact of individual risk exposures on the whole account.

The Company uses a number of modelling tools for this purpose, and their main objective is to simulate losses so as to measure the effectiveness of the reinsurance programme and to confirm that the Company's net exposure has not exceeded the predetermined limit. A number of stress and scenario tests are also run during the year to examine the exposure to specific types of events.

Notes to the financial statements – continued

3. Risk management - continued

Insurance risk - continued

Management of reinsurance risk

Treaty reinsurance is purchased to proactively manage the volatility inherent in the business. The Company seeks to balance cost versus protection through outward reinsurance treaty protections.

In addition to protecting the business against catastrophe exposure, reinsurance is also purchased to cede risks that have characteristics that the Company does not wish to retain and also to control net exposures on single risks or aggregations of risks. Both proportional and non-proportional reinsurances are employed. Facultative reinsurance may also be used in certain predetermined circumstances for individual large lines.

The erosion and ongoing adequacy of the reinsurance programme, as well as the reinsurance credit risk, are also actively monitored.

Reserve risk

Reserve risk is associated with liabilities the Company has from insurance policies issued in the past. This is the risk that claims reserves and related claims handling reserves will be materially inadequate relative to the ultimate cost of settlement.

Reserves for business underwritten in the past are established through detailed actuarial studies of the Company's insurance liabilities. These studies are subject to extensive management review and discussion by the Company's Reserving Group and Audit Committee. The Company sets its reserves using a variety of established methodologies for all claims liabilities, reported and unreported. Where necessary, policies or parts of the portfolio that give rise to particular uncertainty are segmented and analysed separately as part of the reserving process. The drivers of underlying changes in estimates of reserves are identified and analysed. When setting reserves for the current accident year, additional sources of uncertainty, such as changes in pricing levels, catastrophe claims, or the mix of business underwritten, are explicitly considered. In order to monitor the adequacy of previously established reserves, claims experience is reviewed each quarter to identify any deviations against expectations.

Critical to the reserve setting process is the assumption that the past claims development experience can be used to predict the future claims development and hence the ultimate cost of claims. Triangulation statistics that show the historical development of premiums and claims for each class of business and underwriting year are used to assist in the process of determining reserves. Numerous other factors and assumptions are applied to the claims historical progression data to assist in setting these estimates. The factors include changes over time to the business mix and method of acceptance within each class of business, rating and conditions, legislation and court awards, claims inflation and economic conditions. By its nature, the process involves a significant amount of judgement, although every effort is made to ensure that the process and resultant reserves are set on a consistent basis and will be sufficient to meet the cost of claims when they are finally settled.

There is a significant amount of uncertainty in the reserve established, which may be more or less than adequate. The level of uncertainty varies between classes of business and generally increases for longer tail classes of business. Any change in the estimate of a reserve, or a settlement at a value other than the reserve provided, is recognised in the reporting period in which the change is identified. Given the significant uncertainty in the best estimate reserve established, the booked reserve also includes an additional management margin for prudence. This margin increases the probability that the booked claim reserves will prove adequate. The margin amount is set by the Board and reflects both the degree of uncertainty around the actuarial best estimate and the reserve risk appetite of the Company.

Notes to the financial statements – continued

3. Risk management – continued

Insurance risk - continued

Reserve risk - continued

The following table quantifies the impact on the Company's profit before tax and net assets of a 1% variation in the outstanding claims reserve and combined ratio, which may be the result of one or several changes in the insurance risk variables.

	Gross of reinsurance 2020 £'000	Net of reinsurance 2020 £'000	Gross of reinsurance 2019 £'000	Net of reinsurance 2019 £'000
Pre-tax impact of a 1% variance in:				
Claims liability	4,243	3,281	3,845	3,233
Combined ratio	2,012	1,531	1,832	1,450
Impact on net assets of a 1% variance in:				
Claims liability	3,436	2,657	3,191	2,683
Combined ratio	1,629	1,240	1,521	1,203

Financial risk

Financial risks can be broken down into the following categories:

Credit risk

Credit risk is the risk of loss if a counterparty fails to meet its contractual obligations, resulting in a financial loss to the Company. The Company is exposed to credit risk primarily through its investment and insurance activities.

The exposure to credit risk, from its holding of debt and other fixed income securities, is managed by adherence to the Company's investment guidelines which detail minimum issuer credit quality, duration limits, and the maximum value of individual holdings. The average S&P credit rating of the Company's debt and other fixed income securities remained high throughout the year, and at 31 December 2020 was "A" (2019: "A").

The Company is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are the reinsurers' share of claims outstanding and debtors arising out of direct and reinsurance operations from both policyholders and intermediaries. Ceded reinsurance is used to mitigate risks arising from inwards business. Ceded reinsurance does not discharge the Company's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. Reinsurance coverages are normally placed with reinsurers who are included on the approved reinsurance security listing used by the Company. Generally, these reinsurers will have an S&P credit rating of "A" or better. With regard to direct insurance and reinsurance debtors, the Company operates processes to review broker security and to monitor arrangements with managing general agents. Debtors consist of payments of premium due from a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Notes to the financial statements – continued

3. Risk management – continued

Financial risk - continued

The Company does not have significant credit risk exposure to any single external counterparty or any group of counterparties. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The assets bearing credit risk are summarised below:

	2020 £'000	2019 £'000
Other financial investments	548,178	509,175
Reinsurers' share of claims outstanding	96,165	61,156
Debtors arising out of direct insurance operations	57,682	44,223
Cash at bank and in hand	54,238	43,873
Debtors arising out of reinsurance operations	871	1,984
Total assets bearing credit risk	757,134	660,411

The concentration of credit risk is substantially unchanged compared to the prior year.

The carrying amount of the above assets at the balance sheet date represents the maximum credit risk exposure. As at the year end, the Company does not hold any investments in wrapped debt or other such fixed income securities.

Notes to the financial statements – continued

3. Risk management - continued

Financial risk - continued

Credit risk - continued

Other financial investments are designated as fair value through profit or loss at inception, and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. The credit rating for other financial investments is detailed below. The ratings are derived from S&P.

	2020 £'000	2019 £'000
AAA	54,776	45,541
AA	122,613	119,266
A	175,148	179,223
BBB	171,127	145,998
Below BBB or not rated	24,514	19,147
Total other financial investments bearing credit risk	548,178	509,175

Other financial investments and cash at bank are neither past due nor impaired.

The S&P or equivalent credit rating for reinsurers' share of claims outstanding and debtors arising out of reinsurance operations is detailed below:

	2020 £'000	2019 £'000
AA	161	160
A	92,358	56,754
BBB	105	61
Below BBB or not rated	4,412	6,165
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	97,036	63,140

Reinsurers' share of claims outstanding includes a £0.6 million (2019: £0.6 million) provision for impairment. Debtors arising out of direct and reinsurance operations includes a £0.6 million (2019: £1.3 million) provision for impairment which represents 11.9% (2019: 18.7%) of the total past due amount.

Notes to the financial statements – continued

3. Risk management - continued

Financial risk - continued

Liquidity risk

Liquidity risk is the risk that cash may not be available, or that assets cannot be liquidated at a reasonable price, to pay obligations when they fall due. The Company is exposed to daily calls on its available cash resources, mainly from claims arising through insurance and reinsurance contracts.

The table below summarises the maturity profile of the Company's financial and insurance liabilities based on an analysis by estimated timing of the amounts recognised in the balance sheet for insurance liabilities, and based on remaining undiscounted contractual obligations for all other liabilities.

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Claims outstanding	140,570	96,608	105,047	82,026	424,251
Creditors - amounts falling due within one year	43,441	-	-	-	43,441
Accruals and deferred income	2,497	-	-	-	2,497
As at 31 December 2020	186,508	96,608	105,047	82,026	470,189
	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Claims outstanding	134,334	132,130	70,056	47,937	384,457
Creditors - amounts falling due within one year	26,612	-	-	-	26,612
Accruals and deferred income	2,129	-	-	-	2,129
As at 31 December 2019	163,075	132,130	70,056	47,937	413,198

Notes to the financial statements – continued

3. Risk management - continued

Financial risk - continued

Liquidity risk - continued

The table below summarises the maturity profile of the Company's financial and insurance assets where the maturity profile is an analysis by estimated timing of the amounts recognised in the balance sheet.

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Other financial investments	55,532	218,370	162,178	112,098	548,178
Reinsurers' share of claims outstanding	31,863	21,898	23,811	18,593	96,165
Debtors – amounts falling due within one year	62,078	-	-	-	62,078
Accrued interest and other prepayments and accrued income	6,406	-	-	-	6,406
Cash at bank and in hand	54,238	-	-	-	54,238
As at 31 December 2020	210,117	240,268	185,989	130,691	767,065

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Other financial investments	52,963	196,581	152,044	107,587	509,175
Reinsurers' share of claims outstanding	21,369	21,018	11,144	7,625	61,156
Debtors – amounts falling due within one year	57,895	-	-	-	57,895
Accrued interest and other prepayments and accrued income	6,938	-	-	-	6,938
Cash at bank and in hand	43,873	-	-	-	43,873
As at 31 December 2019	183,038	217,599	163,188	115,212	679,037

The Company manages this risk by structuring its working capital to ensure that there are available cash resources or sufficiently liquid investments to meet expected cash flow requirements. The Company's investment guidelines are structured to ensure that investments can be liquidated at short notice to meet higher levels of demand in exceptional circumstances.

The company has no significant concentrations of liabilities that would result in a concentrated cash outflow or any significant concentration of assets that may result in restrictions in liquidating at short notice.

Liquid funds and cash flow forecasts are monitored regularly to ensure that the need for sufficient liquidity is balanced against investment return objectives.

Notes to the financial statements – continued

3. Risk management - continued

Financial risk - continued

Market risk

Market risks are principally related to the Company's investment activity, notably its holding of debt and other fixed income investments. Within this area, the primary risks to which the Company is exposed are: currency risk and interest rate risk.

The Company manages these exposures through its Investment Group. The group is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Company. In addition, the group is responsible for the management of all investment asset risks, the selection of its investment managers and reviewing investment performance.

The investment management function is outsourced to an external fund manager.

The Investment Group has established an asset allocation policy of investing primarily in listed debt, other fixed income securities and cash. The policy also stipulates that surplus cash can only be held on deposit with highly rated credit institutions until such time as suitable investments in appropriate listed debt and other fixed income securities can be made.

An investment management agreement has been established with the Company's external fund manager. The agreement includes specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and concentration exposures. The agreement also limits concentration of exposures to single countries, economic sectors and individual securities and provides for minimum standards of creditworthiness. The external fund manager provides quarterly affirmation of compliance with these guidelines.

Market risk - currency risk

The Company is primarily exposed to currency risk in respect of assets and liabilities relating to insurance policies denominated in currencies other than Pounds Sterling. The Company looks to maintain an appropriate currency match of assets and liabilities with surplus funds being held in line with the currency profile policy for surplus investments.

The accounting policy for foreign currencies is stated in note 1 to the financial statements.

The relevant exchange rates measured in units against the Company's presentational currency, Pounds Sterling, for the year are:

	Profit and loss account		Balance sheet	
	2020	2019	2020	2019
Australian Dollar	1.88	1.83	1.78	1.89
Danish Kroner	8.44	8.50	8.33	8.83
Euro	1.13	1.14	1.12	1.18
Swedish Kroner	11.90	12.03	11.25	12.42
Swiss Franc	1.21	1.27	1.21	1.28
United States Dollar	1.29	1.27	1.37	1.33

Notes to the financial statements – continued

3. Risk management - continued

Financial risk - continued

Market risk - currency risk - continued

Given the net asset position at year end, a 10% strengthening of Pounds Sterling against the Euro and then separately against all other currencies (primarily the Euro, Danish Kroner, US dollar and Australian dollar) would result in the following impacts:

	Euro only		All currencies	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Impact on profit and loss account				
Foreign exchange (loss)/gain	(516)	(807)	3,079	2,082
Tax on profit/(loss) on ordinary activities	98	153	(585)	(395)
Total impact on capital and reserves	(418)	(654)	2,494	1,687

Market risk - interest rate risk

The Company's exposure to interest rate risk is mainly through its investments in debt and other fixed income securities due to instrument duration and the associated duration of the liabilities arising from insurance activities. The investment portfolio is managed based on the characteristics of the underlying liabilities and the alignment of the duration of the investment portfolio to the duration of the liabilities.

The investment portfolio is periodically analysed for changes in duration and related price change risk. The evaluation is performed by applying an instantaneous change in yield rates of varying magnitude on a static balance sheet to determine the effect such a change in rates would have on the fair value at risk and the resulting effect on shareholder's' funds.

To illustrate the down side risk within the debt and other fixed income securities portfolio, the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously (principally Pounds sterling, Euro, US dollars and Australian dollars) has been estimated. The Company does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £9.3 million (2019: £16.2 million) and accordingly decrease total shareholder's funds by £7.6 million (2019: £13.1 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December 2020 would have had an equal and opposite effect to the amounts shown above.

Operational risk

The Company is exposed to operational risks associated with internal processes, people, systems, service providers or external events. The Company has a business continuity plan and IT disaster recovery plan. The Company arranges Corporate Insurances to help protect against financial loss. The operational risk management framework also includes an operational loss reporting facility to record incidents and near-misses from operational events.

Notes to the financial statements – continued

3. Risk management - continued

Strategic risk

The risk universe of all group operations is covered by a risk register in place to ensure risk can be managed and monitored at the local level as well as Company and group.

Group risk

Group risk is the risk that the business units fail to consider the impact of their activities on other parts of the CNA group, as well as the risks arising from their activities. The primary areas of focus in respect of group risk are:

Capital & Solvency

A risk-based approach is used to determine the amount of capital required to support the activities of the Company. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is performed and the results are reviewed against Board risk appetite.

Reputation

Negative publicity as a result of the CNA group's contractual arrangements, customers, products, services and other activities could impact the brand and our ability to deliver against the business plan and interact as needed with the capital markets. The Company aims to minimise reputational risks, but where reputational risk arises, it would be contained by prompt management of public communications.

Shared services

The Company relies on certain group services, such as financial systems. Any issues in these services will manifest as group risk. These outsourced service risks are monitored and assessed at both the local and group level.

Notes to the financial statements – continued

4. Segmental Information

Segmental results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. There is no individual policyholder that comprises greater than 10% of the Company's total gross written premiums.

Financial income, other operating income, other operating expenses, finance costs and taxation are not allocated to business segments as these items are determined by entity level factors and do not relate directly to the performance of each operating segment.

Information required by the Company's Act 2006 regarding the Company's operating segments is presented below:

For the year ended 31 December 2020

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Marine, aviation and transport	37,831	35,743	(19,512)	(11,185)	(1,283)
Fire and other damage to property	18,937	19,425	(9,445)	(6,096)	(4,691)
Third party liability	154,208	136,186	(86,643)	(32,207)	735
Miscellaneous	10,116	9,808	(3,993)	(2,693)	(1,680)
Total	221,092	201,162	(119,593)	(52,181)	(6,919)

For the year ended 31 December 2019

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Marine, aviation and transport	30,210	29,497	(18,669)	(10,295)	(1,944)
Fire and other damage to property	17,746	18,454	(7,094)	(6,619)	(6,286)
Third party liability	128,948	127,410	(89,305)	(34,206)	(23,496)
Miscellaneous	7,877	7,839	(3,652)	(2,617)	(1,620)
Total	184,781	183,200	(118,720)	(53,737)	(33,346)

Notes to the financial statements – continued

6. Net operating expenses

	2020 £'000	2019 £'000
Acquisition costs	30,627	28,150
Other acquisition costs	3,666	3,731
Change in deferred acquisition costs	(1,911)	502
Reinsurance commissions	(3,150)	(1,771)
Change in ceded deferred acquisition costs	276	(491)
Total acquisition costs	29,508	30,121
Administrative expenses	22,673	23,616
Total	52,181	53,737

7. Information on employees and directors

All UK staff are employed and remunerated by CNA Services, a fellow indirect subsidiary of CNAF. The Company pays CNA Services a management fee for the provision of staff and administration services. Until 31 December 2018, the Company employed staff in its Continental European branch offices. From 1 January 2019, staff in Continental Europe branch offices were transferred to CICE (see note 25).

Directors' remuneration

Details of the emoluments paid to the directors of CICL are disclosed in the financial statements of CNA Services. Five (2019: five) directors are members of a defined contribution pension scheme.

The following Directors of the Company who served during the year, listed below, were all employed and remunerated by CCC, part of the CNAF group (see note 24). It is not practicable to allocate these Directors' remuneration between their services across the companies of which they are executives. Therefore, their remuneration is included in the financial statements of the individual company which employed and remunerated them, CCC. These directors did not receive any emoluments from this company:

J Anderson, D Brosnan and D Worman.

	2020 £'000	2019 £'000
Income from the provision of Funds at Lloyd's	252	1,463
Other finance costs (see note 16)	51	21
Interest income on investment contracts	-	113
Change in value of investment in subsidiary undertakings	(287)	(4,182)
Foreign exchange movements	(2,259)	(715)
Other income	441	592
Total	(1,802)	(2,708)

9. Profit/(loss) on ordinary activities before tax

	2020	2019
	£'000	£'000
Operating lease rentals:		
Recharged from CNA Services	1,303	1,229
Fees payable to the Company's auditor for:		
The audit of the Company's annual financial statements	150	138
Other services pursuant to legislation	129	143

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Notes to the financial statements – continued**10. Tax on profit/(loss) on ordinary activities**

	2020 £'000	2019 £'000
Current tax:		
UK Corporation tax on profits of the year	(814)	(67)
Double tax relief	74	67
Overseas tax	(74)	(105)
	(814)	(105)
Adjustments in respect of previous years:		
Overseas tax	100	(69)
Total current tax charge	(714)	(174)
Deferred tax (see note 14):		
Origination and reversal of timing differences	(2,175)	(564)
Effect of change in UK tax rate	441	-
Movement in post-retirement liability excluding actuarial gain	22	11
Deferred tax impact of transfer to CICE (see note 25)	-	(168)
Deferred tax impact of adoption of FRS 102	-	37
Adjustment in respect of prior years	(135)	158
Total deferred tax charge	(1,847)	(526)
Tax charge on profit/(loss) on ordinary activities	(2,561)	(700)
	2020 £'000	2019 £'000
Factors affecting tax charge for the year:		
Profit/(loss) on ordinary activities before tax	41,395	(2,761)
Tax at the UK rate of 19.0% (2019: 19.0%)	(7,865)	570
Effects of:		
Group relief received without payment	4,831	222
Effect of change in UK tax rate	441	65
Net pension contribution relief in excess of pension charges	46	30
Non-taxable income	75	23
Deferred tax impact of adoption of FRS 102	-	37
Adjustments in respect of foreign tax rates	-	(38)
Deferred tax impact of transfer to CICE (see note 25)	-	(168)
Adjustments to tax charge in respect of previous years	(35)	89
Expenses disallowed for tax purposes	(54)	(1,530)
Tax charge on profit/(loss) on ordinary activities	(2,561)	(700)

Notes to the financial statements – continued

11. Shares in group undertakings

	Cost 2020 £'000	Cost 2019 £'000	Reported Value 2020 £'000	Reported Value 2019 £'000
Investment in Subsidiary	198,331	178,707	192,735	173,398

The Company owns 100% of the 127.7 million ordinary €1 shares in CICE issued at a €93.1 million premium. The registered address of CICE is 35F, avenue J.F. Kennedy, L-1855 Luxembourg, Grand-Duchy of Luxembourg.

The Company owns one ordinary £1 share (2019: £1), issued at par value, of Maritime Insurance Company Limited ("MIDL") representing 100% of MIDL's authorised share capital. MIDL is incorporated in the UK, registered in England and Wales at the same address as the Company, and is currently dormant.

12. Other financial investments

	Cost 2020 £'000	Cost 2019 £'000	Fair Value 2020 £'000	Fair Value 2019 £'000
Debt securities and other fixed income securities	542,939	512,542	548,178	509,175

Fair value

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices equal to the bid price in active markets; quoted prices for similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable in active markets.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The Company attempts, either itself or through its external fund manager (see note 3), to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Company is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Company utilises market observable information to the extent possible. As further validation of the Company's valuation process, the Company samples past fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.

Notes to the financial statements – continued**12. Other financial investments - continued**

Other financial investments measured by the fair value hierarchy at 31 December are summarised below:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2020				
Debt securities and other fixed income securities	10,647	537,531	-	548,178
2019				
Debt securities and other fixed income securities	10,594	498,581	-	509,175

During the year no significant transfers occurred between Level 1 and Level 2. The Company held no Level 3 investments in the current or prior year.

The amounts expected to be realised within and after one year are estimated as follows:

	2020 £'000	2019 £'000
Within one year	55,532	52,963
After one year	492,646	456,212
Total	548,178	509,175

13. Reinsurers' share of technical provisions

	2020 £'000	2019 £'000
Reinsurers' share of claims outstanding gross of impairment provision	96,800	61,794
Impairment provision	(635)	(638)
Reinsurers' share of claims outstanding	96,165	61,156
Reinsurers' share of unearned premiums	21,417	16,034
Total	117,582	77,190

Notes to the financial statements – continued**14. Other debtors**

	2020	2019
	£'000	£'000
Deferred tax asset	2,531	4,054
Amounts due from group undertakings	-	7,634
Other	994	-
Total	3,525	11,688

The carrying amounts of all items approximate fair value. Group balances are payable on demand and reflect intra-group recharges.

Deferred tax asset

Details of the full potential asset for deferred tax are given below:

	Provided	Provided	Not	Not
	2020	2019	provided	provided
	£'000	£'000	2020	2019
			£'000	£'000
Tax losses	1,840	3,443	-	-
Short-term timing differences	415	313	-	-
Decelerated capital allowances	276	298	-	-
	2,531	4,054	-	-
Post-retirement asset/(liability)	223	(308)	-	-
Total	2,754	3,746	-	-

The total deferred tax asset has been recognised in the financial statements to the extent that the directors consider that it is likely to be utilised in the foreseeable future.

	2020	2019
	£'000	£'000
Provision at start of year	3,746	3,655
Amounts charged to the profit and loss account	(1,847)	(526)
Amounts credited to the statement of comprehensive income	855	617
Provision at end of year	2,754	3,746

Notes to the financial statements – continued

15. Deferred acquisition costs

	2020 £'000	2019 £'000
At 1 January	13,803	22,034
Change in deferred acquisition costs	1,911	(502)
Transferred to CICE (see note 25)	-	(7,689)
Foreign exchange revaluation	(5)	(40)
At 31 December	15,709	13,803

All amounts are expected to be recovered within one year.

16. Staff pension plans

Retirement benefit pension scheme

The Company sponsors two defined benefit schemes in the UK. The schemes are administered by a separate fund that is legally separated from the Company. The Trustees of the pension fund are required by law to act in the interest of the funds and of all relevant fund stakeholders.

The Trustees are responsible for the investment strategy of the Plans after consulting the Employer. The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. The Trustees review their investment strategy following each formal actuarial valuation of the Plans (or more frequently should the circumstances of the Plans change in a material way). The Trustees take advice from their professional advisers regarding an appropriate investment strategy to the Plan, which includes asset to liability matching, risk to reward balancing and other factors which may be relevant to ensure the suitability of the investment strategy.

Risks associated with the Plans

The Plans expose the Company to a number of risks, the most significant of which are:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. A significant proportion of invested assets are held in growth assets (including equities as part of a diversified fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Plans' long term objectives.
Changes in bond yields	A fall in corporate bond yields will increase the value placed on the Plans' liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Plans' bond holdings.
Inflation risk	The majority of the Plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation would reduce the asset. Increasing the inflation assumption by around 0.1% would increase the pension obligations by about 1.0% - 1.5%.
Life expectancy	The majority of the Plans' obligations are to provide benefits for the life of the member, with the Plans' liabilities calculated by reference to the best estimate of the mortality of plan participants. Increases in life expectancy will result in an increase in the liabilities.

Notes to the financial statements – continued

16. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees

Composition of the scheme

The Company sponsors a funded defined benefit pension plan ("the Plan") for qualifying UK employees. The Plan is administered by a separate board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the Company and the members of the Plan. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Under the Plan, members are entitled to annual pensions on retirement at normal retirement age (typically age 60 or age 65) of one-sixtieth of final pensionable salary for each year of service. Pensionable salary is defined as basic salary (plus for certain members in certain circumstances any bonuses declared to be pensionable). Benefits are also payable on death and following other events such as early retirement or withdrawing from active service.

The Plan was closed to new members with effect from 1 May 2002. All employees now participate in a defined contribution pension plan.

With effect from 30 September 2014 all active members became deferred pensioners following the curtailment of the Plan and the subsequent transfer of their employment from CICL to CNA Services.

Profile of the Plan

The defined benefit obligation includes benefits for deferred members and current pensioners.

Broadly, about 57% of the liabilities are attributable to deferred members and 35% to current pensioners.

The Plan duration is an indicator of the weighted-average time until benefit payments are made. For the Plan as a whole, the duration is around 20 years reflecting the approximate split of the defined benefit obligation between deferred members (duration of 25 years) and current pensioners (duration of 13 years).

The table below illustrates the profile of projected future benefit payments from the Plan.

	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
At 31 December 2020				
Pension benefits	2%	2%	6%	90%

Notes to the financial statements – continued

16. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Plan was carried out by a qualified actuary as at 31 March 2019 and it showed a deficit of £1.6 million.

As a result of the valuation the Company agreed to pay annual contributions of £1.6 million in monthly instalments from 1 April 2020 to 30 June 2025, which are expected to bring the Plan to full funding by 30 June 2025. In addition, the Company pays directly the Pension Protection Fund and other levies collected by the Pensions Regulator.

The next funding valuation will be carried out with an effective date of 31 March 2022. If the Plan is in deficit at that time, the Company will discuss any required deficit contributions with the Trustees of the Plan.

Contributions of £1.62 million were made by the Company during 2020. Company contributions to the Plan in the year to 31 December 2021 are estimated to be £1.62 million.

Before the scheme closed to future accruals, the Trustees insured certain benefits payable on death in service before retirement.

Reporting at 31 December 2020

The results of the latest funding valuation at 31 March 2019 have been adjusted to the balance sheet date taking account of experience over the period since 31 March 2019, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation and the related current service cost were measured using the Projected Unit Method.

Main assumptions

The main assumptions are as follows:

	2020 % pa	2019 % pa
Discount rate for the Plan's liabilities	1.4	2.0
RPI inflation	2.7	2.5
CPI inflation	2.0	2.1
Increase in salaries	n/a	n/a
Life expectancy for male currently aged 65	23.2	23.0
Life expectancy for female currently aged 65	24.7	24.5
Life expectancy for male currently aged 45	24.4	24.3
Life expectancy for female currently aged 45	26.1	25.9

The mortality assumptions are based on standard mortality tables derived from the collected mortality experience of a large number of schemes. The standard tables are adjusted to allow for socio-economic analysis of the Plan's membership and for expected future improvements in mortality rates.

Notes to the financial statements – continued

16. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

The amounts recognised in total comprehensive income are set out below:

	2020 £'000	2019 £'000
Operating cost		
Service costs:		
Administration expenses	168	201
Total operating cost	168	201
Financing cost:		
Interest on net pension asset	(51)	(137)
Pension expense recognised in profit and loss	117	64
Remeasurements in other comprehensive income:		
Return on plan assets in excess of that recognised in net interest	(3,500)	(6,128)
Liability losses arising during the year	7,989	9,759
Total amount recognised in other comprehensive income	4,489	3,631
Total amount recognised in profit and loss and comprehensive income	4,606	3,695

Changes in the present value of the defined benefit obligation are as follows:

	2020 £'000	2019 £'000
Opening defined benefit obligation	64,478	54,666
Actuarial losses arising from changes in financial assumptions	8,561	8,632
Interest expense on defined benefit obligation	1,267	1,617
Actuarial gains arising from changes in demographic assumptions	281	805
Actuarial (gains)/losses arising from	(853)	322
Net benefits paid out	(2,271)	(1,564)
Closing defined benefit obligation	71,463	64,478

Notes to the financial statements – continued

16. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

Changes in the fair value of scheme assets are as follows:

	2020 £'000	2019 £'000
Opening fair value of plan assets	66,287	58,550
Gains on Plan assets	3,500	6,128
Contributions by the employer	1,620	1,620
Interest income on plan assets	1,318	1,754
Administration costs incurred	(168)	(201)
Net benefits paid out	(2,271)	(1,564)
Closing fair value of scheme assets	70,286	66,287

Scheme B – The CNA Re Management Company Limited (“CNA Re”) Retirement Benefits Plan

In 2002 CCC sold its subsidiary undertaking CNA Re to Tawa Plc (formerly Tawa UK Limited). By virtue of a letter dated 3 November 2005, and pursuant to Clause 12.1 of the Share Purchase Agreement between CCC and Tawa Plc dated 15 July 2002, CCC provided an indemnity in favour of CNAE in respect of obligations which CNAE assumed as Principal Employer of the Plan.

By virtue of a Deed of Substitution of Principal Employer effective 10 July 2008, the Company replaced CNAE as Principal Employer of the Plan. CCC has provided an indemnity in favour of the Company.

Composition of the scheme

The Company operates a Defined Benefits Plan, the CNA Re Management Company Limited Retirement Benefits Plan (1977) (“the 1977 Plan”). The benefits provided by the 1977 Plan are final salary defined benefits with the contributions paid by the Employer on a balance of cost basis. The 1977 Plan is run by the Trustees who ensure that the 1977 Plan is run in accordance with the Trust Deed & Rules of the 1977 Plan and complies with legislation. The Trustees are required by law to fund the 1977 Plan on prudent funding assumptions under the Trust Deed & Rules of the 1977 Plan. The contributions payable by the Employer to fund the 1977 Plan are set by the Trustees after consulting the Employer.

The 1977 Plan closed to all accruals on 31 October 2002.

The assets of the Plan are mainly invested in equity, gilt and corporate bond managed funds with Legal & General Assurance (Pensions Management) Limited. When members retire their pensions are currently bought out with an insurance company in their own name. Accordingly no further pension benefits are paid from the fund.

Notes to the financial statements – continued

16. Staff pension plans - continued

Scheme B – The CNA Re Management Company Limited (“CNA Re”) Retirement Benefits Plan - continued

Profile of the 1977 Plan

The defined benefit obligation includes benefits for deferred members (former employees).

The 1977 Plan duration is an indicator of the weighted-average time until benefit payments are made. The 1977 Plan's duration is around 21.5 years.

The table below illustrates the profile of projected future benefit payments from the 1977 Plan. Benefits are currently bought out with an insurance company on retirement of each deferred member.

	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
At 31 December 2020				
Pension benefits	7%	6%	20%	67%

Scheme B – The CNA Re Management Company Limited (“CNA Re”) Retirement Benefits Plan - Funding requirements

The Trustees use the defined accrued benefit funding method. This method is suitable for funding a scheme that is closed to future accruals.

The employee contributions to the 1977 Plan for 2020 and 2019 were nil.

The Employer contributes deficit contributions as appropriate. No contributions were made in 2020.

In addition, the Employer pays directly all of the expenses and levies involved in running the 1977 Plan.

Reporting at 31 December 2020

A full valuation was undertaken as at 1 January 2018 by a qualified independent Actuary. The present value of the defined benefit obligation and the related current service cost were measured using the Projected Unit Method.

Main assumptions

The main assumptions are as follows:

	2020 % pa	2019 % pa
Discount rate	1.4	2.0
RPI inflation assumption	2.7	2.5
CPI inflation assumption	2.0	2.0
Increase in salaries	n/a	n/a
Life expectancy for male currently aged 65	23.2	23.0
Life expectancy for female currently aged 65	24.7	24.5
Life expectancy for male currently aged 45	24.4	24.3
Life expectancy for female currently aged 45	26.1	25.9

The mortality assumptions are based on standard mortality tables derived from the collected mortality experience of a large number of schemes. The standard tables are adjusted to allow for socio-economic analysis of the Plan's membership and for expected future improvements in mortality rates.

Notes to the financial statements – continued**16. Staff pension plans - continued****Scheme B – The CNA Re Management Company Limited (“CNA Re”) Retirement Benefits Plan - continued**

As at 31 December 2020 the 1977 Plan assets are invested in the following asset classes:

	Fair value 2020 £'000	Of which not quoted in active market 2020 £'000	Fair value 2019 £'000	Of which not quoted in active market 2019 £'000
Diversified Growth Fund	7,806	-	7,849	-
Gilts and bonds	7,428	-	7,778	-
Cash	265	-	(26)	-
Total	15,499	-	15,601	-

At 31 December 2020 £nil (2019: £nil) of the fair value of scheme assets related to self-investment and all assets are quoted.

The amounts recognised on the balance sheet at 31 December 2020 are set out below:

	2020 £'000	2019 £'000
Fair value of 1977 Plan assets	15,499	15,601
Present value of funded defined benefit obligation	(16,475)	(15,404)
Net pension (liability)/asset	(976)	197

Notes to the financial statements – continued

16. Staff pension plans - continued

Scheme B – The CNA Re Management Company Limited (“CNA Re”) Retirement Benefits Plan - continued

The amounts recognised in total comprehensive income are set out below:

	2020 £'000	2019 £'000
Operating cost:		
Past service cost	72	-
Total operating cost	72	-
Financing cost:		
Interest on net defined benefit asset	(4)	(49)
Pension benefit/(expense) recognised in profit and loss	68	(49)
Remeasurements in other comprehensive income:		
Return on plan assets (in excess of)/below that recognised in net interest	(1,145)	(1,511)
Liability losses/(gains) arising during the year	2,250	3,005
Total amount recognised in other comprehensive income	1,105	1,494
Total amount recognised in profit and loss and comprehensive income	(1,037)	(1,543)

Changes in the present value of the defined benefit obligation are as follows:

	2020 £'000	2019 £'000
Opening defined benefit obligation	15,404	12,429
Actuarial losses due to changes in financial assumptions	1,889	2,661
Actuarial losses arising from experience	310	184
Interest expense on obligation	293	367
Past service cost	72	-
Actuarial gains due to changes in demographic assumptions	51	160
Net benefits paid out	(1,544)	(397)
Closing defined benefit obligation	16,475	15,404

Notes to the financial statements – continued**16. Staff pension plans - continued****Scheme B – The CNA Re Management Company Limited (“CNA Re”) Retirement Benefits Plan - continued**

Changes in the fair value of 1977 Plan assets are as follows:

	2020 £'000	2019 £'000
Opening fair value of 1977 Plan assets	15,601	14,071
Gains on Plan assets	1,145	1,511
Expected return on 1977 Plan assets	297	416
Net benefits paid out	(1,544)	(397)
Closing fair value of 1977 Plan assets	15,499	15,601

17. Share capital

	2020 £'000	2019 £'000
Authorised:		
15,000,000 ordinary shares of £10 each (2019: 15,000,000)	150,000	150,000
Allotted, called up and fully paid:		
13,020,000 ordinary shares of £10 each (2019: 13,020,000)	130,200	130,200

Notes to the financial statements – continued**18. Technical provisions**

The gross liabilities for claims reported, loss adjustment expenses and claims incurred but not reported are net of expected recoveries from salvage and subrogation.

Total technical provisions

	2020	2019
	£'000	£'000
Gross		
Claims reported	154,413	129,088
Unallocated loss adjustment expenses	8,826	7,180
Claims incurred but not reported	261,012	248,189
Unearned premiums	109,755	90,232
Total gross technical provisions	534,006	474,689
Reinsurers' share of technical provisions		
Claims reported	33,363	15,518
Claims incurred but not reported	62,802	45,638
Unearned premiums	21,417	16,034
Total reinsurers' share of technical provisions	117,582	77,190
Net		
Claims reported	121,050	113,570
Unallocated loss adjustment expenses	8,826	7,180
Claims incurred but not reported	198,210	202,551
Unearned premiums	88,338	74,198
Total net technical provisions	416,424	397,499

Notes to the financial statements – continued**18. Technical provisions - continued****Movement in technical provisions**

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2019	131,751	652,799	784,550
Foreign exchange revaluation	281	477	758
Transferred to CICE (see note 25)	(43,381)	(301,320)	(344,701)
Movement in provision	1,581	32,501	34,082
At 1 January 2020	90,232	384,457	474,689
Foreign exchange revaluation	(407)	(595)	(1,002)
Movement in provision	19,930	40,389	60,319
At 31 December 2020	109,755	424,251	534,006
Reinsurance amount			
At 1 January 2019	33,447	81,224	114,671
Foreign exchange revaluation	372	(1,382)	(1,010)
Transferred to CICE (see note 25)	(13,875)	(17,518)	(31,393)
Movement in provision	(3,910)	(1,168)	(5,078)
At 1 January 2020	16,034	61,156	77,190
Foreign exchange revaluation	(215)	(2,045)	(2,260)
Movement in provision	5,598	37,054	42,652
At 31 December 2020	21,417	96,165	117,582
Net			
At 31 December 2020	88,338	328,086	416,424
At 31 December 2019	74,198	323,301	397,499

The claims development tables below show CICAL's estimate of the ultimate gross and net cost of claims at initial assessment and annually thereafter. Data have been compiled, and analysed, on an accident year by calendar year basis. Data from all years has been restated at the 2020 closing rates of exchange to remove fluctuations caused by movements in foreign currency rates.

Each table provides a reconciliation of the CICAL accident year reserves to the claims outstanding liability provided in CICAL's balance sheet.

Notes to the financial statements – continued

18. Technical provisions - continued

Claims development table gross of reinsurance

Accident year	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	Total £'000
At end of first year	81,628	76,057	80,279	84,754	77,769	91,733	89,844	108,303	144,455	107,990	112,241	1,055,053
One year later	(447)	(824)	(3,143)	(11)	5,795	13,311	9,039	24,695	5,711	(4,045)		50,081
Two years later	(2,926)	(2,193)	(8,859)	(971)	(978)	1,855	(2,071)	7,081	(6,626)			(15,688)
Three years later	1,114	(5,711)	1,713	(10,349)	(893)	(426)	(24,289)	20,888				(17,953)
Four years later	(4,491)	(4,115)	(24)	(180)	(3,481)	(8,451)	(3,263)					(24,005)
Five years later	(1,465)	(7,345)	(3,442)	(4,037)	(8,805)	(663)						(25,757)
Six years later	(2,011)	731	(2,308)	(8,468)	(3,318)							(15,374)
Seven years later	(3,337)	(3,086)	(2,478)	(2,664)								(11,565)
Eight years later	(1,425)	(1,709)	(142)									(3,276)
Nine years later	(314)	(801)										(1,115)
Ten years later	354											354
Current estimate of ultimate claims	66,680	51,004	61,596	58,074	66,089	97,359	69,260	160,967	143,540	103,945	112,241	990,755
Cumulative payments to date	(63,913)	(49,061)	(58,613)	(55,492)	(56,948)	(81,994)	(45,382)	(59,922)	(71,215)	(35,230)	(7,280)	(585,050)
Provision as at 31 December 2020	2,767	1,943	2,983	2,582	9,141	15,365	23,878	101,045	72,325	68,715	104,961	405,705
Accident years prior to 2009												9,720
Claims handling provision												8,826
Technical provisions as at 31 December 2020												424,251

Notes to the financial statements – continued

18. Technical provisions - continued

Claims development table net of reinsurance

Accident year	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	Total £'000
At end of first year	63,090	70,072	68,965	75,819	71,730	90,247	73,721	95,693	110,135	87,724	88,598	895,794
One year later	(393)	(2,301)	(2,705)	415	4,515	5,592	14,800	27,624	5,256	(2,691)		50,112
Two years later	(2,578)	(2,353)	(7,816)	(1,332)	(1,493)	1,971	(4,035)	9,631	(5,080)			(13,085)
Three years later	698	(4,580)	1,403	(7,212)	(4,433)	(5,085)	(18,129)	2,128				(35,210)
Four years later	(3,522)	(4,282)	(452)	(32)	(1,422)	(4,710)	(5,396)					(19,816)
Five years later	(1,268)	(1,965)	(3,771)	(1,231)	(4,758)	1,700						(11,293)
Six years later	(1,138)	624	(1,117)	(6,578)	(4,503)							(12,712)
Seven years later	(3,285)	(2,237)	(2,292)	(2,751)								(10,565)
Eight years later	(753)	(1,512)	156									(2,109)
Nine years later	(152)	(819)										(971)
Ten years later	(514)											(514)
Current estimate of ultimate claims	50,185	50,647	52,371	57,098	59,636	89,715	60,961	135,076	110,311	85,033	88,598	839,631
Cumulative payments to date	(48,381)	(48,748)	(49,104)	(55,078)	(54,014)	(75,431)	(40,934)	(59,053)	(50,307)	(35,029)	(7,187)	(523,266)
Provision as at 31 December 2020	1,804	1,899	3,267	2,020	5,622	14,284	20,027	76,023	60,004	50,004	81,411	316,365
Accident years prior to 2009												2,895
Claims handling provision												8,826
Technical provisions as at 31 December 2020												328,086

Notes to the financial statements – continued**19. Provisions for other risks**

	Dilapidations and refurbishment provision £'000
At 1 January 2019	674
Transferred to CICE	(507)
Charged to the statement of profit or loss	19
At 31 December 2019	186
Charged to the statement of profit or loss	33
At 31 December 2020	219

The Company has established a provision to meet the expected obligation for property lease dilapidations and refurbishment costs in respect of leased properties. The costs relating to these will be borne over the period over which the leases expire, which is up to 5 years.

The amounts expected to be settled within and after one year are estimated as follows:

	2020 £'000	2019 £'000
Within one year	-	-
After one year	219	186
Total	219	186

Notes to the financial statements – continued**20. Other creditors including tax and social security**

	2020	2019
	£'000	£'000
Amounts due to group undertakings	6,425	-
Insurance premium tax	4,872	4,504
Corporation tax payable	817	-
Financial liabilities	362	362
Other tax and social security	20	181
Other creditors	7,005	263
Total	19,501	5,310

The carrying amounts of all items approximate fair value. All amounts are expected to be settled within one year. Group balances are repayable on demand and reflect intra-group recharges.

21. Operating lease commitments

The future minimum non-cancellable lease payments on operating leases for each of the following periods are:

	Land and buildings		Other	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Within one year	316	167	-	-
Within two to five years	680	444	-	-
Total	996	611	-	-

Notes to the financial statements – continued

22. Commitments and Contingent liabilities

Institute of London Underwriters (“ILU”)

Following the merger of the ILU and the London Insurance & Reinsurance Market Association to form the International Underwriting Association of London, the Company resigned its membership of the ILU on 31 December 1998. The Company had to establish a fund of £1,048,780 by way of an irrevocable letter of credit in order to meet the ILU's expected shortfall of income from the period 1999 until further notice. At 31 December 2020 the amount remaining on the letter of credit after draw downs was £314,545.

London Underwriting Centre

In 2002 CCC sold its subsidiary undertaking CNA Re to Tawa Plc (formerly Tawa UK Limited). By virtue of a letter dated 10 February 2003 and pursuant to Clause 9.8 of the Share Purchase Agreement between CCC and Tawa UK Limited dated 15 July 2002, CCC provided an indemnity in favour of CNAE for its liabilities as the legal holder of certain shares in LUC Holdings Limited and the related guarantees (“LUC Shareholder and Guarantor”).

By virtue of a Deed of Adherence dated 7 August 2008 (“Deed of Adherence”), the execution of an identical Deed of Adherence by each current member of LUC Holdings Limited, and the Deed of Release and Substitution of Guarantor effective 7 August 2008, the Company replaced CNAE as LUC Shareholder and Guarantor. CCC has agreed to provide an indemnity in favour of CICL. The possibility of any transfer in settlement by CCC of this liability is remote and it is therefore not practicable to calculate an estimate of the financial impact.

Funds deposited with Lloyd's of London

Acting as a third party depositor under a trust deed executed on 23 December 2015, the Company deposited £1,085,006 (2019: £37,012,156) in bonds with Lloyd's as security for the underwriting activities of HUL. Fees of 2.5% (2019: 2.5%) per annum are attributable to this security and were earned by the Company on a quarterly basis. The funds pledged as Funds at Lloyd's for Lloyd's are ineligible for the purposes of calculating the Company's capital available to meet regulatory requirements.

23. Deed of Guarantee

The Company has been granted a Deed of Guarantee by CCC (the Guarantor) effective 24 January 2002 and renewed on 1 January 2019. The Deed of guarantee is also applicable to the Company's subsidiary CICE. Under the terms of the Deed of Guarantee, CCC guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by the Company, including policies or contracts entered into before 24 January 2002. The Company is charged a fee by CCC for the provision of the guarantee based on an agreed formula. The calculated charge for 2020 was £nil (2019: £nil).

The Deed of Guarantee will remain in place until 31 December 2022 unless written notice is received from S&P that the guarantee is no longer needed for the Company to maintain an S&P rating at the same level as the rating assigned to the Guarantor, or, if the majority shareholding in the Company is transferred to a corporate entity outside the CNA group which has an S&P rating equal to or better than the rating assigned to the Guarantor.

Notes to the financial statements – continued

24. Ultimate parent company

During the year and at the end of the year, the ultimate parent and controlling party and also the company which headed the largest group of undertakings for which group financial statements were drawn up and of which the Company was a member, was the Loews Corporation, a company incorporated in the United States of America.

The immediate parent undertaking of the Company is CNAE, a company incorporated in the UK and registered in England and Wales.

The parent undertaking which heads the smallest group of undertakings for which group financial statements were drawn up and of which the Company is a member, is CNAF, a company incorporated in the United States of America.

The consolidated financial statements of CNAF are available to the public and may be obtained from CNA Financial Corporation, 151 North Franklin Street, Chicago, IL 60606.

The largest parent undertaking for which group financial statements were drawn up and of which the Company is a member is Loews Corporation, a company incorporated in the United States of America.

The consolidated financial statements of Loews Corporation are available to the public and may be obtained from Loews Corporation, 667 Madison Avenue, New York, NY 10065-8087.

25. Part VII transfer

On 1 January 2019, the Company contributed all of the assets and liabilities attributable to its branch offices in Belgium, Denmark, France, Germany, Italy and the Netherlands and its EEA business written on a **Freedom of Service ("FOS")** basis to CICE in exchange for shares in CICE. From 1 January 2019, the existing FOS business has been serviced and new FOS business has been written from the newly established UK branch of CICE. The contribution was subject to a condition precedent that the contribution of all relevant insurance policies to CICE was covered through a Part VII transfer. The contribution to CICE included the transfer of all the employees of the branch operations.

The transaction was recorded as a group reconstruction using the merger accounting method as the transfer from CICL to CICE is a transfer of a business under common control. Under the transfer, CICE issued 100,000,000 ordinary shares of 1 Euro each and share premium of Euro 93,135,000 in exchange for the assets and liabilities, recorded at carrying value, of the branches and FOS business of CICL. No goodwill was recognised in relation to the transaction. The transfer had no impact to the profit and loss account or to the total capital and reserves of CICL at the date of transfer. There are no adjusting or non-adjusting events relating to Brexit post year-end.

Notes to the financial statements – continued

26. Reconciliation from UK GAAP to US GAAP - unaudited

As outlined in the statement of Directors' responsibilities and note 1, the Company prepares and presents statutory financial statements in accordance with FRS 102 and FRS 103 ("UK GAAP"). The Directors have prepared a reconciliation to accounting principles generally accepted in the US ("US GAAP") to meet relevant regulatory requirements in the United States of America. This note does not form part of the Annual Report and Financial Statements as required under UK GAAP or the Companies Act 2006 and is unaudited.

Reconciliation of profit/(loss) for the financial year on a UK GAAP basis to net income on a US GAAP basis

	2020 £'000	2019 £'000
Profit/(loss) for the financial year on a UK GAAP basis	38,834	(3,461)
Adjustments to reconcile to US GAAP:		
Unrealised investment gains and foreign exchange thereon included in other comprehensive income ("OCI") for US GAAP net of tax of £204,000 (2019: £1,715,000) - see i. below	1,005	(3,205)
Remeasurement of investments classified as available for sale recorded in OCI under US GAAP net of tax of £649,000 (2019: £234,000) - see ii. below	(19,248)	(438)
Difference in treatment of amounts in relation to defined benefit pension scheme accounting net of tax of £521,000 (2019: £1,395,000) - see iii. Below	1,111	3,251
Other GAAP accounting differences net of tax of £505,000 (2019: £466,000) - see iv. below	(1,078)	845
Net profit/(loss) on a US GAAP basis	20,624	(3,008)

Notes to the financial statements – continued

26. Reconciliation from UK GAAP to US GAAP- continued

- i. Under UK GAAP unrealised investment gains/losses and foreign exchange differences on the revaluation of investments still held are included in profit or loss for the financial year whereas under US GAAP the foreign exchange difference upon revaluation of investments classified as available for sale is recorded within Other Comprehensive Income ("OCI"). No net asset difference arises between UK GAAP and US GAAP.
- ii. Whilst the carrying value of financial investments is stated at market value under both UK GAAP and US GAAP, there are differences in the cost basis and the treatment of unrealised gains and losses. Under UK GAAP the cost basis is historic cost and both realised and unrealised gains and losses are included within profit for the financial year.

Under US GAAP, the investments are classified as available for sale. Consequently, the cost basis is amortised cost with accretion and amortisation of premiums and discounts reported within net income and changes in unrealised gains of £9,087,766 (2019: gain of £4,640,395) and changes in unrealised losses of £132,376 (2019: gain of £3,824,610), included within OCI. Upon disposal of the investments, the unrealised gains and losses are recycled to net income. Provisions for declines in the fair value below the amortised cost of the investments, that are other than temporary impairments, of £17,873 (2019: £nil) are recorded in net income. As a result, no net asset difference arises between UK GAAP and US GAAP.
- iii. Under US GAAP, amortisation of actuarial gains and losses are accounted for as part of the net periodic pension cost, but offset to OCI. Under UK GAAP amortisation of actuarial gains and losses are included in the statement of comprehensive income for the financial year. As a result, no net asset difference arises between UK GAAP and US GAAP.
- iv. Under US GAAP, Unearned Premium ("UPR") and Deferred Acquisition Costs ("DAC") are held at their historical rate. Under UK GAAP UPR and DAC are revalued at the current month end rate.

	2020 £'000	2019 £'000
Capital and reserves on a UK GAAP basis	414,833	380,354
Impairment of investment in subsidiary	6,109	1,824
Other GAAP differences	1,131	2,016
Stockholders' equity on a US GAAP basis	422,073	384,194