Gresham Insurance Company Limited

Registered in England No. 00110410

Annual Report and Financial Statements 2020

Contents

Directors and officer

Directors

M A Field
T J Latter
G J Hemming
D W Kelly

Officer – Company Secretary

Aviva Company Secretarial Services Limited
St Helen's
Undershaft
London
EC3P 3DQ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

8 Surrey Street
Norwich
NR1 3NG

Company number

Registered in England no. No. 00110410

Other information

Gresham Insurance Company Limited ("the Company") is a member of the Association of British Insurers and covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

The Company is a member of the Aviva plc group of companies ("the Group").

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2020.

Review of the Company's business

Principal activities

The principal activity of the Company is the transaction of general insurance business, predominantly household in the United Kingdom ("UK") through a business arrangement with Barclays Bank plc.

Significant events

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and prohibition of gatherings and events. The spread of COVID-19 has had a significant impact on the global economy, causing volatile equity markets and falls in interest rates.

Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most.

The impact of COVID-19 on the Company's financial position is not considered to be significant given that the Company underwrites personal household business, and the 100% quota share reinsurance arrangement with it's parent company, Aviva Insurance Limited.

The Company's balance sheet exposure and solvency position has been continually reviewed during the year. At 31 December 2020 the Company had strong solvency levels and expects to continue to meet its capital requirements.

Note 22 has been updated to reflect the impact of COVID-19 on the risk environment within which the Company operates and the way in which the pandemic has had an impact on the Company's material risk exposures. This includes descriptions of key actions taken to mitigate these changes in risk exposures during 2020.

Financial position and performance

The financial position of the Company at 31 December 2020 is shown in the statement of financial position on page 21, with the trading results shown in the income statement on page 19 and the statement of cash flows on page 22.

The profit after tax for the year was £4,732 thousand *(2019: £3,780 thousand).* As described in note 23(a)(i), the Company has a 100% quota share reinsurance arrangement (with the exception of levy expenses) with its parent company, Aviva Insurance Limited.

Gross written premiums decreased by 3% in 2020 (*2019*: 4% decrease); due to a highly competitive home insurance market and COVID-19 lockdown disruption seeing lower branch footfall, offset in part by strong digital growth and strong retention rates.

On 24 November 2020 the Board approved a £14,000 thousand interim dividend as detailed in the Director's report.

Section 172 Statement

The directors report here on how our directors have discharged their duties under Section 172 of the Companies Act 2006.

The Board is responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company, and the Group, to ensure that our obligations to our shareholder and to our stakeholders are met. It monitors adherence to the Group business standards and compliance with local corporate governance requirements, and is committed to acting if our businesses should fail to act in the manner we expect of them. For each matter which comes before the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the Board's decision-making process.

The Board will sometimes engage directly with certain stakeholders on certain issues, however due to the size and distribution of our stakeholders and of the Company, stakeholder engagement often takes place at an operational level. The Board considers and discusses information from the Company's management team to help it understand the stakeholder interest and to ensure they are carefully considered as part of the Board's decision-making process. Through review of reports relating to strategy, financial and operational performance, key risk and legal and regulatory compliance, the Board is able to maintain an overview of engagement with stakeholders and other relevant factors which enable the directors to comply with their legal duty under S172.

The Board is also focussed on the wider social context within which our businesses operate, including those issues related to climate change which are of fundamental importance to the planet's well-being.

Our culture

As the provider of vital financial services to millions of customers, Aviva seeks to earn customers' trust by acting with integrity and responsibility at all times. We look to build relationships with all our stakeholders based on openness and continuing dialogue.

Our culture is shaped in conjunction with our parent entity, Aviva Insurance Limited (AIL) and ultimate shareholder, Aviva plc, by our clearly defined values to help ensure we do the right thing. We value diversity and inclusivity in our workforce and beyond.

The commitment we make to each customer extends to all our stakeholders; that we are 'with you today, for a better tomorrow'.

Key strategic decisions in 2020

For each matter that comes before the Board, the Board considers the likely consequences of any decision in the long term, identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process.

In April 2020 the Board approved the decision to offer financially vulnerable household insurance customers impacted by COVID-19 a payment deferral on their monthly insurance payment for up to three months. The Company has incurred no significant adverse financial impacts, in either receivable ageing or bad debt expense, as a result of this offer.

Strategic report (continued)

During the year, the Board approved the payment of an interim dividend of £14,000 thousand to its parent company. The Directors considered all relevant matters set out under the Companies Act 2006 concerning the payment of dividends, including reviewing the Company's distributable reserves and its ability to pay its debts as they fall due, having regard to the entirety of the Company's business and the actual and contingent liabilities.

The Company launched Ask It Never digital strategy during 2020 which was significant given the national lockdowns and reduction in customer footfall during the COVID-19 pandemic.

The Company ensured it was ready for Brexit and the transition has caused minimal impact for the Company's customers.

Stakeholder engagement

(i) Employees

The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Group, these staff enjoy the benefit of the Group policies and benefits made available to them.

The Company's engagement mechanisms align with Group, such as employee forums, internal communication channels, informal meetings with directors and employee engagement surveys.

The Group carries out a comprehensive global employee engagement survey each year, and the results are considered by the Board in the context of the Company's culture, values and behaviours and actions to continually improve the results. The Gresham Board also holds strategy sessions.

The Group's people share in the business' success as shareholders through membership of the Group's global share plans.

The Company supported the safety and well-being of staff to work from home during the COVID-19 pandemic and the Board received reporting on Group employees throughout the year.

(ii) Customers

The Board receives regular reporting on customer outcomes and strategic initiatives throughout the year.

The Board closely monitors customer metrics and engages with the leadership team to understand the issues if our performance does not meet our customers' expectations.

Gresham's parent entity, AIL, is supported by the Conduct Committee to enable it to monitor customer metrics, and subsequently engage with the senior leaders to address any issues that may arise from customer complaints, feedback and our approach to good customer outcomes. The Gresham Board can escalate any matters it feels necessary to the Conduct Committee for further scrutiny.

The Board continues to monitor IT performance to ensure consistent service for our customers.

The Board works to ensure we deliver fair value to our customers, reviewing pricing on our products. Aviva is also working closely with our business partners to focus on the new industry approach to pricing.

As part of the Group's response to COVID-19, the Board discussed and supported the activities to continue to support its customers. This included the offering of premium deferrals for customers in temporary financial difficulties.

(iii) Suppliers

The Company maintains oversight of the management of its most important suppliers and reviews reports on their performance.

All supplier related activity is managed in line with the Group's Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual, and brand damage caused by inadequate oversight or supplier failure.

The Board reviews the actions we have taken to prevent modern slavery and associated practices in any part of our supply chain and approves our Modern Slavery Act statement each year.

In the UK, the Company's ultimate parent, Aviva plc, is a signatory of the Prompt Payment Code which sets high standards for payment practices. The Group is a Living Wage employer in the UK, and the Company's supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided to the Company at its premises in the UK.

(iv) Communities

The Gresham Board supports the community activities of the Group including the well-being proposition for UK employees, the Aviva Communities to help drive greater diversity and inclusivity throughout the organisation and to support its colleagues to volunteer in their communities.

Recognising climate change presents risk and opportunities for customers, communities and business, Aviva is signed up to the United Nations Net-Zero Asset Owner Alliance commitment. As publicly announced by the Group on 1 March 2021, the Company is committed to the Group's long-term strategy to reach net zero by 2040, and to support achieving this target the Group has defined climate risk preferences and operating risk limits.

(v) Shareholders

The Company's shareholder is Aviva Insurance Limited. Any matters requiring escalation are escalated by the Board through the Chair to its parent.

(vi) Regulators

As a dual regulated entity under the Senior Manager's Certification Regime, the Company is required to produce a Management Responsibilities Map and this is shared with the Regulators on a quarterly basis.

The Gresham Board engages with the Regulators as appropriate.

Strategic report (continued)

Future outlook

The strategic direction of the Company is set by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

The Company is well positioned to compete in its key markets against the ongoing backdrop of regulatory reform and competitive market conditions.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 22 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- General Insurance risk: including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.
- Market risk: the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices.
- Credit risk: the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.
- Coronavirus: During the year, the Company has been impacted by the COVID-19 pandemic through its operations, insurance products and asset holdings as well as ongoing difficult conditions in the global financial markets and the economy generally. The impact of COVID-19 on the Company's general insurance risk is limited due to the nature of the insurance business underwritten and reinsurance arrangements in place. Further details are provided note 22 Risk management.
- Brexit: The UK-EU Future Relationship Agreement came into effect on 1 January 2021, ending the Brexit transition period, for which the Company was fully prepared. It provides scope for managed policy divergence or maintaining alignment, if the UK chooses. The agreement will have evolving consequences in 2021 and beyond on future financial services and data regulation, UK-EU data transfers, EU market access and the UK economy which will require careful monitoring.

Key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows:

- increase/(decrease) in gross written premiums;

- combined operating ratio ("COR") - this comprises the sum of the following ratios:

    - gross incurred claims to gross earned premiums;
    - gross earned commission to gross earned premiums; and
    - gross earned expenses to gross earned premiums.

COR is calculated as gross claims incurred, gross earned commission and gross earned expenses as a percentage of gross earned premiums which aligns to our underwriting result.

	2020	2019
Financial Performance Metrics		
Decrease in gross written premiums	(3)%	(4)%
Combined operating ratio (COR)	**85 %**	**87 %**

The COR excludes corporate costs relating to other non-underwriting costs of £3,847 thousand (*2019*: £3,749 thousand).

The decrease in gross written premiums is explained in "Financial position and performance" above.

The COR decreased by 2% in 2020. This has arisen from an improvement in claims performance net of any other change in performance and profit commission offset.

Non-financial indicators

The Company is considered to have no non-financial KPIs as it has no employees and environmental matters are monitored for the Group as a whole.

On behalf of the Board on 30 March 2021

T J Latter
Director

Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2020.

Directors

The current directors in office during the year, are as follows:

T J Latter
D W Kelly
M A Field
G J Hemming

Company Secretary

Aviva Company Secretarial Services Limited.

Dividends

An interim dividend was paid during the year of £14,000 thousand (*2019*: £50,000 thousand). The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2020 (*2019*: £nil).

Going concern

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future to meet its obligations as they fall due. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to foreign currency exchange and interest rates. Details of the objectives and management of these instruments are contained in note 22 on risk management.

Employees

The Company has no employees. All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited ("AES"). Disclosures relating to employees are made in the annual report and financial statements of AES.

Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's external auditors, PricewaterhouseCoopers LLP, is unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP is aware of that information.

Independent auditors

It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP, under the deemed appointment rules of section 487 of the Companies Act 2006.

Qualifying indemnity provisions

In 2004, Aviva plc, the Company's ultimate parent, granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of section 309A to section 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements 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 prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;

Directors' report (continued)

- make judgements and accounting estimates that are reasonable and prudent; 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 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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.

On behalf of the Board on 30 March 2021

T J Latter
Director

Independent auditors' report to the member of Gresham Insurance Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, Gresham Insurance Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2020 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2020; the income statement, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- Using the output of our risk assessment, we scoped our audit based on materiality of each financial statement line item.

Key audit matters

- Valuation of insurance claims liabilities
- Impact of COVID-19

Materiality

- Overall materiality: £1,493,000 (2019: £1,512,364) based on the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract.
- Performance materiality: £1,119,750.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in 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 in the Auditors' responsibilities for the audit of the financial statements section, 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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements as shown in our 'Key Audit Matters'. Audit procedures performed by the engagement team included:

Independent auditors' report to the member of Gresham Insurance Company Limited

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Making enquiries of the Aviva Group Investigations team who are responsible for independently reviewing fraudulent activity across the Aviva group, utilising activities including, but not limited to, whistle-blowing hotlines and data analytics.
- Testing the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities.
- Assessment of matters reported on the Company's whistle-blowing hotline and fraud register and the results of management's investigation of such matters.
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations.
- Reviewing relevant meeting minutes including those of the Aviva Insurance Limited Risk Committee, Aviva UKGI Reserve and Projection Committee and Board of Directors.
- Reviewing the company's register of litigation and claims, internal audit reports and compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Procedures relating to the valuation of insurance claims liabilities described in the related key audit matter below.
- Identifying and testing journal entries, in particular journals that appear to be posted outside the normal patterns or parameters.
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance claims liabilities Insurance claims liabilities are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2020, whether reported or not, together with the related claims handling costs. The valuation of these insurance claims liabilities is a significant accounting estimate in the financial statements and involves a significant degree of judgement. Key areas of focus this year were: • The underlying volatility attached to estimates for the larger classes of business such as Personal Household, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported COR. • The risk of inappropriate assumptions in determining current year estimates for the Company. Given that limited data is available, there is greater reliance on expert judgement in their estimation. Refer to Accounting policy B (page 15) and H (page 16) and Notes 14 and 19 (pages 29 and 34) for disclosures of related accounting policies, judgements and estimates.	In performing our audit over insurance claims liabilities we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: • Developing independent point estimates for classes considered to be higher risk, particularly focussing on the largest and most uncertain estimates, as at 30 September 2020 and performing roll-forward testing to 31 December 2020. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimated insurance claims liabilities represent a reasonable estimate. • For other classes of business, we tested the methodology and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates based on the Company's facts and circumstances. In performing the above we have also considered and tested the following: • The internal control environment in place over insurance claims liabilities including: o Governance control activities; and o Control activities supporting key data used in the estimation process. • The underlying relevant data (including but not limited to claims case estimates and claims paid) to relevant evidence. • Examined prior year run-off of previous estimates. • The directors' assessment of estimation uncertainty. • Considered whether any of our audit procedures gave rise to an indication of management bias. Based on the work performed and evidence obtained, we were satisfied with the insurance claims liabilities booked.

Independent auditors' report to the member of Gresham Insurance Company Limited

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Impact of COVID-19

As disclosed within the strategic report, 2020 began with the outbreak of a new strain of Coronavirus (COVID-19) resulting in a global pandemic causing significant economic disruption. The impact of this pandemic on the financial position of the Company is not considered to be significant given that the Company underwrites personal property insurance and is reinsured via the internal quota share arrangement with its parent company, Aviva Insurance Limited.

The directors' have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date. However, events after the reporting date can provide additional information about the uncertainties that existed at the reporting date.

The directors' have performed procedures to assess the financial and operational impacts of COVID-19 which include:

- Measures to limit the operational impact of being able to deliver key customer and reporting activities;
- Operation of a risk management framework to ensure sufficient capital surplus is maintained to meet liabilities, even under stress scenarios and having robust plans in place for certain actions if the company falls outside its approved risk appetite;
- Frequent monitoring of the company's solvency coverage ratio;
- Actively managing the company's capital and liquidity position including monitoring of asset credit quality, employing an active hedging strategy in relation to market and interest rate risks, and actively managing liquidity on a fund by fund basis; and
- Frequent communications with the PRA by the directors.

The directors have concluded the company will continue to meet its capital requirements and operate through this pandemic and the company continues to be a going concern. However, as the situation is rapidly evolving it is not possible to quantify the potential financial impact of the outbreak on the company.

Refer to the Strategic Report (page 4) and Note 22 (page 41) for disclosures in relation to the COVID-19 pandemic and its impact on the Company.

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We assessed the directors' approach to the impact of COVID-19 on the company and the financial statements by performing the following procedures:

- Evaluated the directors' stress and scenario testing and challenged the directors' key assumptions. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we reviewed the controls and governance over the production of this information and considered its consistency with other available information and our understanding of the business.
- Assessed the mitigating actions the directors have put in place and further plans they have if they are required, due to further deterioration of the wider UK and Global economy.
- Read correspondence with the PRA in relation to COVID-19.
- Read board papers and minutes and attended Risk Committee meetings held in 2020, where the impacts and issues around COVID-19 were discussed.
- Assessed the disclosures made by the directors in the financial statements and checked consistency of the disclosures with our knowledge of the company based on our audit.
- Obtained and evaluated the directors' assessments of the potential impact of COVID-19 on claims levels for individual classes of business and agreed to supporting information and analyses.
- Obtained and reviewed relevant reinsurance contracts (including Excess of Loss agreements) and reviewed correspondence with reinsurance providers.

Based on the work performed and the evidence obtained, we consider the disclosure of the impact of COVID-19 in the financial statements to be appropriate.

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How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We performed a full scope audit of the complete financial information of the entity in accordance with our materiality and risk assessment. In doing so, we also considered qualitative and quantitative factors across all financial statement line items in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall company materiality	£1,493,000 (2019: £1,512,364).
How we determined it	The amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract.
Rationale for benchmark applied	We believe COR is a key performance related benchmark used by the directors and is central to the Company's communications to the public on the performance of this business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,119,750 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Directors that we would report to them misstatements identified during our audit above £74,650 (2019: £78,618) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the member of Gresham Insurance Company Limited

Conclusions relating to going concern

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

- Review of management's going concern assessment;
- Consideration of the impact to going concern of the COVID-19 pandemic; and
- Assessing the reasonableness of management's assumptions.

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 auditors' report.

Independent auditors' report to the member of Gresham Insurance Company Limited

Use of this report

This report, including the opinions, has been prepared for and only for the company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Directors, we were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2012 to 31 December 2020.

Alexis Gish

Alexis Gish (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2021

Accounting policies

The Company, is a private limited company incorporated and domiciled in the United Kingdom ("UK"). Its principal activity is the transaction of general insurance business in the UK.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the legal requirements of the Companies Act 2006. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets, and financial liabilities at fair value through profit or loss.

The financial statements have been prepared on the going concern basis as explained in the director's report on page 7.

In accordance with *IFRS 4 Insurance Contracts*, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy D.

The Company's financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling ("£000").

New standards, interpretations and amendments to published standards that have been adopted by the Company

The following amendments to existing standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations have been issued and endorsed, are effective from 1 January 2020 or earlier, and do not have a significant impact on the Company's consolidated financial statements.

(i) *Amendments to References to the Conceptual Framework in IFRS Standards (published by the IASB in March 2018)*

(ii) *Amendment to IFRS 3 Business Combinations (published by the IASB in October 2018)*

(iii) *Amendment to IAS 1 and IAS 8: Definition of material (published by the IASB in October 2018)*

(iv) *Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (published by the IASB in October 2019)*

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following new standards and amendments to existing standards have been issued, are not yet effective for the Company and have not been adopted early by the Company:

(i) *IFRS 17, Insurance Contracts*

In May 2017, the IASB published IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are, as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured at each reporting period (the fulfilment cash flows); a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

On adoption IFRS 17 will significantly impact the measurement and presentation of the contracts in scope of the standard. Following amendments to the standard published in June 2020, it is now expected that the standard will apply to annual reporting periods beginning on or after 1 January 2023. The final standard remains subject to endorsement. Following departure from the EU and the end of the transition period in December 2020 the Company will be subject to IFRS as endorsed by the UK. The UK endorsement process has commenced and we expect it to complete in time for the 1 January 2023 effective date.

(ii) *IFRS 9, Financial Instruments*

In September 2018, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied. In December 2020, the EU endorsed the IASB's *Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9*. This extends the fixed expiry date for the temporary exemption for insurers from applying IFRS 9 from 1 January 2021 until 1 January 2023, to align the effective dates of IFRS 9 *Financial Instruments* with IFRS 17 *Insurance contracts.*

The carrying amount of the Company's liabilities connected with insurance are significant when compared to its total liabilities and exceed 73% of the carrying amount of the Company's total liabilities. At 31 December 2020 the Company's total liabilities were £260,532 thousand and liabilities connected with insurance in the statement of financial position at this date primarily included insurance liabilities within the scope of IFRS 4 (£98,190 thousand), payables and other financial liabilities which arise in the course of writing insurance business (£104,968 thousand less bank overdrafts £3,806 thousand and amounts due to other group companies £33,896 thousand), and other liabilities which arise in the course of writing insurance business (reinsurers share of deferred acquisition costs £20,443 thousand thousand plus other insurance related amounts £3,805 thousand). As such, the Company is eligible to apply the deferral approach, as defined by the amendments to IFRS 4. The Company has opted to apply this deferral from 2018. Liabilities connected with insurance in the statement of financial position primarily include liabilities arising from contracts within the scope of IFRS 4, and tax liabilities and payables arising in the course of writing insurance business. The Company has however been required to apply the additional disclosure requirements of IFRS 9 which are set out in note 8.

Accounting policies (continued)

The impact of the adoption of IFRS 9 on the Company's consolidated financial statements will be dependent on the interaction with the new insurance contracts standard, IFRS 17. As such, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has been endorsed.

IFRS9 incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

The following new standards and amendments to existing standards have been issued, are not yet effective and are not expected to have a significant impact on the Company's financial statements:

(iii) *Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

Published by the IASB in August 2020. The amendments are effective for annual reporting beginning on or after 1 January 2021 and have not yet been endorsed.

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

Critical accounting policies

The following accounting policies are those that have the most significant impact on the amounts recognised in the financial statements, including those judgements involving estimation.

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below sets out those items considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and note disclosures.

Item	Critical accounting estimates	Accounting policy	Note
Measurement of insurance contract liabilities	Principal assumptions used in the calculation of general insurance and health liabilities include the discount rates used in determining latent claim and structured settlements liabilities, and the assumption that past claims experience can be used as a basis to project future claims (estimated using a range of standard actuarial claims projection techniques).	H	14
Impairment of financial investments	Factors considered when assessing whether there is objective evidence of impairment include industry risk factors, financial condition, credit rating and whether there has been a significant or prolonged decline in fair value.	K	9
Deferred acquisition costs	Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits.	N	11
Contingent liabilities	When evaluating whether a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	P	19

(C) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

Accounting policies (continued)

(D) Product classifications

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

As noted in accounting policy A above, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS ("grandfathered") or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed and adjustments to the measurement basis have occurred then the financial statements of that year will have disclosed the impacts accordingly.

(E) Premiums earned

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Premiums are earned over the life of the contract in line with incidence of risk. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

(F) Other operating income

Other operating income consists primarily of commission revenue for successful customer introductions, which is recognised as the services are provided.

(G) Net investment income

Investment income consists of interest for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on investments held at fair value through profit or loss (as defined in policy K). Interest income is recognised as it accrues, taking into account the effective yield on the investment.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(H) Insurance contract liabilities

Claims

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 14.

Provisions for claims that are settled on an annuity type basis (such as structured settlements) are discounted, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as a change in insurance liabilities. The range of discount rates used is described in note 14.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement as recognition of revenue over the period of risk.

Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the statement of financial position.

Accounting policies (continued)

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the statement of financial position.

(I) Reinsurance

The Company cedes reinsurance in the normal course of business. The cost of reinsurance is earned over the risk profile of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

(J) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(K) Financial investments

The Company classifies its investments as either financial assets at fair value through profit or loss ("FVTPL") or financial assets available for sale ("AFS"). The classification depends on the purpose for which the investments were acquired, and is determined at initial recognition. The FVTPL category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as "other than trading" upon initial recognition.

In general, the "other than trading" category is used as, in most cases, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise.

Equity securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

(L) Receivables

Receivables, including inter-company loans, are recognised initially at their fair value. Subsequent to initial measurement receivables are measured at amortised cost using the effective interest rate method, less provision for impairment.

(M) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

(N) Deferred acquisition costs

Costs relating to the acquisition of new business for insurance are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and treated as a separate liability.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

(O) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

Accounting policies (continued)

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Operating cash flows

Purchases and sales of loans and financial investments, and related investment income, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

(P) Contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(Q) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

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. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred tax is provided on any temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of any temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively, except for the tax consequences of distributions from certain equity instruments, to be recognised in the income statement. Deferred tax related to any fair value re-measurement of available for sale investments, owner-occupied properties, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

(R) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

Income statement

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Income	1		
Gross written premiums		**124,597**	128,088
Premiums ceded to reinsurers		**(118,690)**	(121,951)
Premiums written and earned, net of reinsurance		**5,907**	6,137
Other operating income		**3,571**	4,212
		9,478	10,349
Expenses	2		
Change in insurance liabilities, net of reinsurance		**(323)**	(60)
Other operating expenses, net of reinsurance		**(5,310)**	(5,622)
Total expenses		**(5,633)**	(5,682)
Profit for the year before tax		**3,845**	4,667
Tax credit/ (charge)	6	**887**	(887)
Profit for the year after tax		**4,732**	3,780

The Company has no recognised income and expenses other than that included in the results above and therefore a separate statement of comprehensive income has not been presented.

The accounting policies (identified alphabetically) on pages 14 to 18 and notes (identified numerically) on pages 23 to 43 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2020

2020

	Note	Ordinary Share Capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January		**10,000**	**14,337**	**24,337**
Profit for the year		**—**	**4,732**	**4,732**
Total comprehensive income for the year		**—**	**4,732**	**4,732**
Dividends paid	7	**—**	**(14,000)**	**(14,000)**
Balance at 31 December		**10,000**	**5,069**	**15,069**

2019

	Note	Ordinary Share Capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January		61,400	9,157	70,557
Profit for the year		—	3,780	3,780
Dividends paid	7	—	(50,000)	(50,000)
Capital reduction		(51,400)	51,400	—
Balance at 31 December		10,000	14,337	24,337

The accounting policies (identified alphabetically) on pages 14 to 18 and notes (identified numerically) on pages 23 to 43 are an integral part of the financial statements.

Statement of financial position

As at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Financial investments	9	**50,689**	50,597
Reinsurance assets	15	**97,231**	99,903
Receivables	10	**66,805**	70,182
Deferred acquisition costs	11	**20,443**	21,367
Prepayments and accrued income		**2,019**	993
Cash and cash equivalents	20(c)	**38,414**	28,606
Total assets		**275,601**	271,648
Equity			
Ordinary share capital	12	**10,000**	10,000
Retained earnings	13	**5,069**	14,337
Total equity		**15,069**	24,337
Liabilities			
Gross insurance liabilities	14	**98,190**	100,539
Current tax liabilities	16	**—**	887
Payables and other financial liabilities	17	**104,968**	90,211
Other liabilities	18	**57,374**	55,674
Total liabilities		**260,532**	247,311
Total equity and liabilities		**275,601**	271,648

The accounting policies (identified alphabetically) on pages 14 to 18 and notes (identified numerically) on pages 23 to 43 are an integral part of the financial statements.

The financial statements on pages 19 to 43 were approved by the Board of Directors on 30 March 2021 and signed on its behalf by:

T J Latter

Director

Statement of cash flows

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Cash generated from operating activities	20(a)	**20,694**	12,948
Total net cash generated from operating activities		**20,694**	12,948
Cash flows from financing activities			
Dividends paid to ordinary shareholders	20(b)	**(14,000)**	(50,000)
Total net cash used in financing activities		**(14,000)**	(50,000)
Total net increase/(decrease) in cash and cash equivalents		**6,694**	(37,052)
Cash and cash equivalents at 1 January		**27,914**	64,966
Cash and cash equivalents at 31 December	20(c)	**34,608**	27,914

The accounting policies (identified alphabetically) on pages 14 to 18 and notes (identified numerically) on pages 23 to 43 are an integral part of the financial statements.

Notes to the financial statements

1. Details of income

	Note	2020 £000	2019 £000
Gross written premiums	14(f)	**124,597**	128,088
Less: premiums ceded to reinsurers	15(c)(ii)	**(118,690)**	(121,951)
Gross change in provision for unearned premiums	14(f)	**2,504**	2,536
Reinsurers' share of change in provision for unearned premiums	15(c)(ii)	**(2,504)**	(2,536)
Net change in provision for unearned premiums		**—**	—
Net earned premiums		**5,907**	6,137
Other operating income		**3,571**	4,212
Total income		**9,478**	10,349

2. Details of expenses

	Note	2020 £'000	2019 £'000
Claims & benefits paid			
Claims and benefits paid to policyholders	14(d)	**47,892**	57,044
Less: Claim recoveries from reinsurers	15(c)(i)	**(47,892)**	(57,044)
Claims and benefits paid, net of recoveries from reinsurers		**—**	—
Change in insurance liabilities			
Change in insurance liabilities	14(d)	**155**	(2,247)
Change in reinsurance asset for insurance provisions	15(c)(i)	**168**	2,307
Change in insurance liabilities, net of reinsurance		**323**	60
Other operating expenses			
Commission and acquisition expenses		**51,612**	49,850
Other operating expenses		**17,076**	13,959
Less: reinsurers' share of expenses		**(63,378)**	(58,187)
		5,310	5,622
Total expenses net of reinsurance		**5,633**	5,682

The Company's expenses (with the exception of levy expenses) are subject to a 100% quota share reinsurance agreement.

Notes to the financial statements (continued)

3. Employee information

The Company has no employees (*2019: none*).

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited, and a recharge is made to the Company. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited.

4. Directors' remuneration

M A Field, G J Hemming and T J Latter were remunerated during the year for their roles as employees across the Group. They were not remunerated directly for their services as directors of this Company and no cost is borne by the Company for these services.

D W Kelly was remunerated by a company outside of the Group during their term. No recharge was made to the Company for their services.

During the year, none of the directors exercised share options (2019: none) and three of the directors were granted shares under long term incentive schemes (2019: four) in relation to shares of the Company's ultimate parent company, Aviva plc.

5. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP is as follows:

	2020 £	2019 £
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**45,657**	**43,813**
Audit related assurance	**—**	**5,595**
	45,657	**49,408**

Fees payable for audit-related assurance services include fees in relation to the audit of the Employers Liability Register for 2019.

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group subsidiary, and recharged as appropriate to the Company and fellow Group companies.

Notes to the financial statements (continued)

6. Tax expense

(a) Tax credited/(charged) to the income statement

The total tax credit/(charge) comprises:

	2020 £'000	2019 £'000
Current tax		
For this year	—	(887)
Prior period adjustments	**887**	—
Total tax credited/(charged) to the income statement	**887**	(887)
United Kingdom tax	**887**	(887)
	887	(887)

(b) Tax reconciliation

The tax on the Company's profit before tax differs from (2019: same as) the theoretical amount that would arise using the tax rate in the United Kingdom as follows:

	Note	2020 £'000	2019 £'000
Total profit before tax		3,845	4,667
Tax calculated at standard UK corporation tax rate of 19.00% (2019: 19.00%)		**(731)**	(887)
Adjustment to tax charge in respect of prior years		**887**	—
Surrender of tax losses from group undertakings for no charge		**731**	—
Tax credit/(charge) for the year	6(a)(i)	**887**	(887)

During 2020, the reduction in the UK corporation tax rate that was due to take effect from 1 April 2020 was cancelled and as a result, the rate has remained at 19%.

In the Budget of 3 March 2021 the UK Government announced that the UK corporation tax rate will increase to 25% from 1 April 2023. As of 31 December 2020, this measure had not been substantively enacted.

As the Company has no deferred tax assets or liabilities at the year end, there is no impact on the Company's net assets as a consequence of the amendments in the tax rates.

7. Dividends

	2020 £'000	2019 £'000
Ordinary dividends declared and charged to equity in the year:		
Interim dividend – £1.40 per share, (2019: £5 per share) paid in December 2020 (2019: April 2019)	**14,000**	50,000
	14,000	50,000

Notes to the financial statements (continued)

8. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company can access at the measurement date.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- quoted prices for similar assets and liabilities in an active market;
- quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads); and
- market-corroborated inputs.

Where broker quotes are used and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- where the broker price is validated by using internal models with market observable inputs and the values are similar, the investment is classified as Level 2; and
- in circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

Level 3

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Examples are certain private equity investments and private placements.

All of the Company's assets and liabilities measured at fair value, are based on quoted market information or observable market data. The Company applies fair value hierarchy Level 1 to its assets as detailed in note 9.

(b) Changes to valuation techniques

No changes were made to the valuation techniques during the year compared to those described in the Company's 2019 annual report and financial statements.

(c) Comparison of the carrying amount and fair values of financial instruments

The fair value of all the Company's financial investments being debts securities approximates to their carrying amounts.

The fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities

As set out in accounting policy A, the Company has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below analyses the Company's financial instruments as at the reporting date between those which are considered to have contractual terms which are solely payments of principal and interest ("SPPI") on the principal amount outstanding (excluding instruments held for trading or managed and evaluated on a fair value basis), and all other instruments not falling into this category. Instruments that do not meet the SPPI criteria include financial assets that meet the definition of held for trading, financial assets that are managed and evaluated on a fair value basis, and instruments with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the financial statements (continued)

	Note		2020		2019
		£'000	£'000	£'000	£'000
		SPPI - Fair value	Non-SPPI - fair value	SPPI - Fair value	Non-SPPI - fair value
Financial assets					
Debt securities	9	—	**50,689**	—	50,597
Receivables	10	**66,805**	—	70,182	—
Cash and cash equivalents	20	**3,614**	**34,800**	6	28,600
Total		**70,419**	**85,489**	**70,188**	79,197

During 2020 there has been a £231 thousand increase *(2019: £1,897 thousand decrease)* in the fair value of SPPI instruments, and a £6,292 thousand increase *(2019: £37,023 thousand decrease)* in the fair value of non-SPPI instruments.

9. Financial investments

Financial investments comprise:

(a) Carrying amount and movements in assets

The table below shows movements in the assets measured at fair value through profit and loss :

Debt securities UK Government	2020	2019
	£'000	£'000
Balance at 1 January	**50,597**	**50,620**
Total net gains / (losses) recognised in the income statement	**92**	**(23)**
Balance at 31 December	**50,689**	**50,597**

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments.

	2020				2019			
	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
UK Government	**48,892**	**1,797**	—	**50,689**	49,338	1,259	—	50,597
	48,892	**1,797**	—	**50,689**	49,338	1,259	—	50,597

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

(c) Impairment of financial investments

There were no impairments in 2020 *(2019: £nil)*.

10. Receivables

	2020	2019
	£'000	£'000
Amounts owed by contract holders	**65,591**	68,016
Amounts owed by intermediaries	**825**	759
Amounts due from reinsurers	**389**	1,407
Total as at 31 December	**66,805**	70,182
Expected to be recovered in less than one year	**66,805**	70,182
	66,805	70,182

Notes to the financial statements (continued)

11. Deferred acquisition costs

The movement in deferred acquisition costs, in respect of insurance contracts, during the year are:

	2020 £'000	2019 £'000
Carrying amount at 1 January	**21,367**	21,886
Acquisition costs deferred during the year	**50,777**	49,417
Amortisation	**(51,701)**	(49,936)
Total as at 31 December	**20,443**	21,367

Deferred acquisition costs are generally recoverable within one year of the statement of financial position date.

12. Ordinary share capital

	2020 £'000	2019 £'000
Allotted, called up and fully paid		
10,000,000 (2019: 10,000,000) ordinary shares of £1 each	**10,000**	10,000

13. Retained earnings

	Note	2020 £'000	2019 £'000
Balance at 1 January		**14,337**	9,157
Profit for the year		**4,732**	3,780
Dividends paid	7	**(14,000)**	(50,000)
Capital reduction		**—**	51,400
Balance at 31 December		**5,069**	14,337

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the PRA. Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings exceed regulatory capital requirements.

Notes to the financial statements (continued)

14. Insurance liabilities

(a) Carrying amount:

(i) Insurance liabilities (gross of reinsurance) at 31 December comprised:

	2020 £'000	2019 £'000
Outstanding claims provisions	**25,051**	26,247
Provision for claims incurred but not reported	**11,469**	10,118
	36,520	36,365
Provision for unearned premiums	**61,670**	64,174
Total	**98,190**	100,539

(b) General insurance

(i) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance and health business are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

When calculating reserves, the Company takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability. The future recoveries from salvage and subrogation offset against reserves is £765 thousand *(2019: £779 thousand)*.

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires booked claims provisions to be calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty.

The impact of COVID-19 on the Company's insurance liabilities is not considered to be significant given that the Company primarily underwrites personal household business.

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

Class	Rate		Mean term of liabilities	
	2020	2019	2020	2019
Structured settlements	**0.3% - 2.2%**	1.0% - 2.5%	**32 years**	34 years

Bodily injury claims to be settled by a structured settlement by the Company, have been awarded by the Courts and these are reserved for on a discounted basis. The period of time which will elapse before the liability is settled has been estimated by modelling the settlement pattern of the underlying claim. The gross outstanding claims provisions for structured settlements before discounting are £9,793 thousand (*2019*: £10,227 thousand). Loss reserves are only established for losses that have already occurred.

(c) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims technicians apply their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claims development is separately analysed for each geographic area, as well as each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

Notes to the financial statements (continued)

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range. The following explicit assumptions are made which could materially impact the level of booked net reserves:

Interest rates used to discount structured settlements

The discount rates used in determining structured settlements are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of claims. The range of discount rates used is shown in section b (ii) above and depends on the duration of the claim and the reporting date. At 31 December 2020, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £476 thousand (*2019*: £268 thousand), excluding the offsetting effect on asset values as assets are not hypothecated across classes of business. The impact has increased over the year due a reduction in the overall level of interest rates, making the discounted position relatively more sensitive to a 1% reduction in the assumed rate. The impact of a 1% fall in interest rates across all assets and liabilities is shown in note 22.

Allowance for risk and uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated in accordance with the requirements of the Company reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Company reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across reporting periods.

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

(d) Movements

The following movements have occurred in the claims provisions during the year:

	Note	2020 £'000	2019 £'000
Carrying amount at 1 January		**36,365**	38,612
Claim losses and expenses incurred related to prior year		**(2,337)**	(2,407)
Claim losses and expenses incurred related to current year		**50,385**	57,204
Incurred claims losses and expenses		**48,047**	54,797
Less:			
Payments made on claims incurred in the current year		**(31,995)**	(36,658)
Payments made on claims incurred in the prior year		**(15,897)**	(20,386)
Claims payments made in the year	2	**(47,892)**	(57,044)
Changes in gross claims		**155**	(2,247)
Carrying amount at 31 December		**36,520**	36,365

(e) Loss development tables

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the accident years 2011 to 2020. The upper half of each table shows the cumulative amounts paid during successive years relating to each accident year. For example, with respect to the accident year 2011, by the end of 2020 £(104,321) thousand gross had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £107,448 thousand was re-estimated to be £104,853 thousand at 31 December 2020. The original estimates will also be increased or decreased as more information becomes known about the individual claims and overall claims frequency and severity.

The Company aims to maintain reserves in respect of its general insurance business that protect against adverse future claims experience and development. The Company establishes reserves in respect of the current accident year (2020), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident claims. As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table above. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Notes to the financial statements (continued)

Loss development tables

Accident year	All prior years	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Gross cumulative claim payments												
At end of accident year		(72,269)	(75,625)	(58,549)	(59,208)	(43,849)	(42,517)	(39,550)	(45,797)	(36,658)	(31,995)	
One year later		(97,937)	(105,028)	(90,344)	(82,287)	(62,157)	(59,041)	(53,812)	(63,669)	(48,826)		
Two years later		(100,828)	(108,856)	(94,430)	(84,447)	(64,618)	(60,465)	(55,040)	(66,175)			
Three years later		(102,433)	(111,019)	(95,707)	(85,994)	(64,899)	(60,921)	(55,247)				
Four years later		(102,930)	(111,785)	(96,076)	(86,591)	(65,153)	(61,479)					
Five years later		(103,650)	(112,261)	(96,482)	(86,491)	(65,262)						
Six years later		(104,124)	(112,393)	(96,736)	(86,462)							
Seven years later		(104,258)	(112,455)	(96,863)								
Eight years later		(104,386)	(112,507)									
Nine years later		(104,321)										
Estimate of gross ultimate claims												
At end of accident year		107,448	127,877	100,169	88,472	72,953	63,099	59,521	68,323	57,204	50,385	
One year later		102,437	117,421	95,415	87,098	65,779	62,912	56,936	67,613	51,556		
Two years later		101,863	116,432	96,541	86,770	65,800	62,345	56,301	69,475			
Three years later		102,709	113,990	96,532	86,991	65,768	62,109	56,595				
Four years later		104,442	113,205	96,906	86,919	66,039	61,971					
Five years later		104,646	112,785	96,887	86,468	65,426						
Six years later		104,446	112,696	96,973	86,626							
Seven years later		104,450	112,718	97,126								
Eight years later		104,580	112,735									
Nine years later		104,853										
Estimate of gross ultimate claims		104,853	112,735	97,126	86,626	65,426	61,971	56,595	69,475	51,556	50,385	
Cumulative payments		(104,321)	(112,507)	(96,863)	(86,462)	(65,262)	(61,479)	(55,247)	(66,175)	(48,826)	(31,995)	
Undiscounted gross outstanding claims provisions	11,129	532	228	263	164	164	492	1,348	3,300	2,730	18,390	38,740
Effect of discounting	(2,220)	—	—	—	—	—	—	—	—	—	—	(2,220)
Discounted gross outstanding claims provisions recognised in the statement of financial position	**8,909**	**532**	**228**	**263**	**164**	**164**	**492**	**1,348**	**3,300**	**2,730**	**18,390**	**36,520**

(i) Net of reinsurance

Claims net of reinsurance 2010 and prior years	2020
	£'000
Undiscounted net outstanding claims provisions	1,603
Effect of discounting	(645)
Discounted net outstanding claims provisions recognised in the statement of financial position	**958**

Notes to the financial statements (continued)

(f) Provision for unearned premium

The following changes have occurred in the provision for unearned premiums during the year:

	Note	2020	2019
		£'000	£'000
Carrying amount at 1 January		**64,174**	66,709
Premiums written during the year	1	**124,597**	128,088
Less: Premiums earned during the year		**(127,101)**	(130,624)
Changes in provisions for unearned premiums recognised as an income	1	**(2,504)**	(2,536)
Carrying amount at 31 December		**61,670**	64,174

15. Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2020			2019		
	Reinsurance assets	Gross insurance liabilities	Net	Reinsurance assets	Gross insurance liabilities	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Outstanding claims provisions	**24,226**	**25,051**	**(825)**	25,421	26,247	(826)
Provision for claims incurred but not reported	**11,336**	**11,469**	**(133)**	10,308	10,118	190
	35,561	**36,520**	**(958)**	35,729	36,365	(636)
Provisions for unearned premiums	**61,670**	**61,670**	**—**	64,174	64,174	—
Total at 31 December	**97,231**	**98,190**	**(958)**	99,903	100,539	(636)

Of the above total, £26,447 thousand (*2019*: £25,567 thousand) of the reinsurance assets is expected to be recovered in more than one year after the statement of financial position date.

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £1,575 thousand *(2019: £2,955 thousand)* as a result of the discounting of latent claims and structured settlements.

The impact of COVID-19 on the Company's reinsurance assets is not considered to be significant given that the Company primarily underwrites personal household business.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts, shown in note 14(c). Reinsurance assets are valued net of an allowance for their recoverability.

Notes to the financial statements (continued)

(c) Movements

The following movements have occurred in the reinsurance assets during the year:

(i) Reinsurers' share of claims provisions

	Note	2020 £'000	2019 £'000
Carrying amount at 1 January		**35,729**	38,037
Reinsurers' share of claim losses and expenses incurred in current year		**50,385**	57,204
Reinsurers' share of claim losses and expenses incurred in prior years		**(2,661)**	(2,467)
Reinsurers' share of incurred claim losses and expenses		**47,724**	54,737
Less:			
Reinsurance recoveries received on claims			
Incurred in current year		**(31,995)**	(36,658)
Incurred in prior years		**(15,897)**	(20,386)
Reinsurance recoveries received in the year	2	**(47,892)**	(57,044)
Change in reinsurance asset recognised as expense		**(168)**	(2,307)
Carrying amount at 31 December		**35,561**	35,729

(ii) Reinsurers' share of the provision for unearned premiums

	Note	2020 £'000	2019 £'000
Carrying amount as at 1 January		**64,174**	66,709
Premiums ceded to reinsurers in the year	1	**118,690**	121,951
Less: Reinsurers' share of premiums earned during the year		**(121,194)**	(124,487)
Changes in reinsurers' share of provisions for unearned premium recognised in income	1	**(2,504)**	(2,536)
Carrying amount at 31 December		**61,670**	64,174

16. Tax assets and liabilities

(a) Current tax

Current tax liabilities payable in more than one year are £nil *(2019:£887 thousand).*

(b) Deferred tax

The Company did not have any recognised or unrecognised deferred tax balances in either 2020 or 2019.

Notes to the financial statements (continued)

17. Payables and other financial liabilities

	Note	2020 £'000	2019 £'000
Payables arising out of direct insurance and assumed reinsurance		**2,515**	6,624
Payables arising out of reinsurance operations			
- Amount due to other Group companies	23(a)(i)	**64,611**	69,686
- Other		**140**	136
Bank overdrafts	20(c)	**3,806**	692
Amounts due to other Group companies	23(a)(iii)	**33,896**	13,073
Total as at 31 December		**104,968**	90,211
Expected to be settled within one year		**104,968**	90,211
		104,968	90,211

All payables and other financial liabilities are carried at amortised cost, which approximates to fair value.

18. Other liabilities

	Note	2020 £'000	2019 £'000
Deferred income		**3,533**	3,929
Reinsurers' share of deferred acquisition costs	23(a)(i)	**20,443**	21,367
Accruals		**28,401**	25,446
Other liabilities		**4,997**	4,932
Total as at 31 December		**57,374**	55,674
Expected to be settled within one year		**57,374**	55,674
Total as at 31 December		**57,374**	55,674

19. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 14 gives details of the estimation techniques used in determining the general business outstanding claims provisions. These approaches are designed to allow for a degree prudence, to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Regulatory compliance

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Company's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that the regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current or potential customers. Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(c) Other

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

The Company pays contributions to levy schemes in the country in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

Notes to the financial statements (continued)

20. Statement of cash flows

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2020 £'000	2019 £'000
Profit before tax	**3,845**	4,667
Adjustments for:		
Changes in working capital:		
Decrease in reinsurance assets	2,672	4,843
Increase in deferred acquisition costs	924	519
Increase in receivables	3,377	1,894
Increase in prepayments and accrued income	(1,026)	7
Decrease in insurance liabilities	(2,349)	(4,232)
Decrease in payables and other financial liabilities	11,643	7,590
Decrease in other liabilities	1,700	(2,363)
Revaluation of financial investments	(92)	23
Total cash generated from/(used in) operating activities	20,694	12,948

Purchases and sales of investment property and financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

Payables and other financial liabilities, excludes bank overdrafts and is stated after eliminating £nil thousand (*2019*: £1,068 thousand) of corporation tax settled or to be settled by group relief.

(b) Financing activities:

	Note	2020 £'000	2019 £'000
Dividends paid	7	**14,000**	**50,000**

(c) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	Note	2020 £'000	2019 £'000
Cash at bank and in hand		**3,614**	6
Cash equivalents		**34,800**	28,600
		38,414	28,606
Bank overdrafts	17	**(3,806)**	(692)
		34,608	27,914

Notes to the financial statements (continued)

21. Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business. This note describes the way the Company manages capital and shows how this is structured.

(a) General

IFRS underpins the Company's capital structure and accordingly the capital structure is analysed on this basis. The Company measures its capital requirements under the Solvency II regime.

(b) Capital management

In managing its capital, the Company seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in the business;
(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulators;
(iii) retain financial flexibility by maintaining strong liquidity; and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company considers not only traditional sources of capital funding but alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

(c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

(i) Accounting basis

The Company is required to report its results on an IFRS basis.

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the regulatory requirements under Solvency II. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model. The risk management note (note 22) gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2020 the Company's estimated own funds under Solvency II were £16,224 thousand (*2019*: £25,504 thousand) (unaudited). The Company's own funds are sufficient to meets its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

(d) Company capital structure

IFRS Net Assets **General insurance**	2020 £'000	2019 £'000
Equity shareholders' funds	**15,069**	24,337
Total capital	**15,069**	24,337

Notes to the financial statements (continued)

22. Risk management

Risk management framework

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, and is aligned to the Group's risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity, general insurance (including short-term health) and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit. They may also affect the performance of the products the Company delivers to its customers and the service to its customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The Chief Executive Officer makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for the Company throughout the year; this declaration is supported by an opinion from the Chief Risk Officer.

A regular top-down key risk identification and assessment process is carried out by the Risk Function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The Company also operates a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are submitted to the Board.

Risk models are an important tool in the measurement of risks and are used in conjunction with other assessment processes to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risk, the Company measures and monitors its risk profile on the basis of the Solvency II solvency capital requirement ("SCR").

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels. Line management in the business is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The Risk Function is accountable for quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the risk management framework. Internal Audit provides an independent assessment of the risk management framework and internal control processes.

Board oversight of risk and risk management across the Company is maintained on a regular basis. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital, liquidity and operational risk..

The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that it will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity.

Further information on the types and management of specific risk types is given in sections (a) to (j) below.

(a) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit risks arise principally through exposures to debt security investments, cash and cash equivalents, reinsurance counterparties and other receivables.

The Company's management of credit risk includes implementation of credit risk management processes (including limits frameworks), the operation of specific risk management committees, and detailed reporting and monitoring of exposures against pre-established risk criteria.

Oversight of credit risk for the Company is undertaken by the Board.

(i) Financial exposures by credit ratings

Financial assets other than equities are graded according to current external credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade. "Not rated" assets capture assets not rated by external ratings agencies. The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings.

	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2020	**AA/AA-**	**A+/A-**	**BBB**	**Below BBB**	**Not-rated**	**Carrying value**
Debt securities	**50,689**	—	—	—	—	**50,689**
Reinsurance assets	**96,371**	**860**	—	—	—	**97,231**

	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2019	AA/AA-	A-	BBB	Below BBB	Not-rated	Carrying value
Debt securities	50,597	—	—	—	—	50,597
Reinsurance assets	99,021	798	—	—	84	99,903

Notes to the financial statements (continued)

The table below provides information regarding the aggregated credit risk exposure of the Company's financial assets that are considered to have contractual terms which are solely payments of principal and interest (SPPI), excluding amounts due from reinsurers, which are included above, and cash and cash equivalents. Cash and cash equivalents are held with highly rated banking institutions or liquidity funds.

SPPI financial exposure by credit ratings

	AA-/AA/AA+	A-/A/A+	BB	Not-rated	Carrying value
31 December 2020	£'000	£'000	£'000	£'000	£'000
Receivables	**—**	**389**	**—**	**66,416**	**66,805**

	AA-/AA/AA+	A-/A/A+	BB	Not-rated	Carrying value
31 December 2019	£'000	£'000	£'000	£'000	£'000
Receivables	1,052	352	—	68,778	70,182

The Company's maximum exposure to credit risk of financial assets is represented by the carrying value of the financial instruments in the statement of financial position. These comprise debt securities, reinsurance assets, derivative assets, and receivables. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 9), reinsurance assets (note 15), receivables (note 10).

(ii) Credit concentration risk

The Company has significant financial exposure to amounts due from its parent company, arising from its reinsurance arrangement, as described in note 23(a)(i). The credit risk arising from its parent company failing to meet all or part of its obligations is considered remote.

(iii) Impairment of financial assets

Financial investments of £50,689 thousand (*2019*: £50,597 thousand) and reinsurance assets of £97,231 thousand (*2019*: £99,903 thousand) are neither impaired nor overdue.

Receivables of £66,805 thousand (*2019*: £70,182 thousand) primarily comprising amounts due from insurance contract holders (note 10) and cash and cash equivalents of £38,414 thousand (*2019*: £28,606 thousand) are not impaired.

The following table provides information regarding the ageing of receivables that are past due but not impaired.

		Financial assets that are past due but not impaired				
	Neither past due nor impaired	0-3 months	3-6 months	6 months-1 year	Greater than 1 year	Carrying value
31 December 2020	£'000	£'000	£'000	£'000	£'000	£'000
Amounts due from contract holders	59,550	5,996	4	2	39	65,591
Amounts due from intermediaries	825	—	—	—	—	825
Amounts due from reinsurers	389	—	—	—	—	389
	60,764	**5,996**	**4**	**2**	**39**	**66,805**

		Financial assets that are past due but not impaired				
	Neither past due nor impaired	0-3 months	3-6 months	6 months-1 year	Greater than 1 year	Carrying value
31 December 2019	£'000	£'000	£'000	£'000	£'000	£'000
Amounts due from contract holders	61,663	6,193	64	44	52	68,016
Amounts due from intermediaries	759	—	—	—	—	759
Amounts due from reinsurers	1,407	—	—	—	—	1,407
	63,829	6,193	64	44	52	70,182

(b) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, foreign currency exchange rates, equity and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. The Company seeks some market risks as part of its investment strategy. However, it has limited appetite for interest rate risk because it does not believe interest rate risk is adequately rewarded.

The Company manages market risk using its market risk framework and within regulatory constraints. Market risk is managed in line with established Group policy, including established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

Interest rate risk arises primarily from the Company's investments in long-term debt and fixed interest securities and their movement relative to the value placed on the insurance liabilities.

Sensitivity of profit before tax and shareholder funds to changes in interest rates is given in section (f)(ii) 'risk and capital management' below.

The Company operates within the UK and there is no exposure to foreign currency exchange rates.

Oversight of market risk for the Company is undertaken by the Board.

Notes to the financial statements (continued)

(c) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a liquidity risk policy and business standard. The Company monitors its position relative to its agreed liquidity risk appetite.

Maturity analyses

The following tables show the maturities of the Company's insurance liabilities, payables and other financial liabilities and of the financial assets and reinsurance assets held to meet them.

(i) Analysis of maturity of financial liabilities and insurance contract liabilities

The following table shows the Company's financial liabilities and insurance contract liabilities analysed by duration:

					2020
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Provisions for outstanding claims	**36,520**	**20,473**	**8,214**	**2,389**	**5,444**
Provision for unearned premiums	**61,670**	**50,307**	**10,860**	**503**	**—**
Payables and other financial liabilities	**104,968**	**104,968**	**—**	**—**	**—**
	203,158	**175,748**	**19,074**	**2,892**	**5,444**

					2019
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Provisions for outstanding claims	36,365	22,492	7,345	1,860	4,668
Provision for unearned premiums	64,174	51,838	11,833	503	—
Payables and other financial liabilities	90,211	90,211	—	—	—
	190,750	**164,541**	**19,178**	**2,363**	**4,668**

(ii) Analysis of maturity of financial assets and reinsurance assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. The table also includes the maturity of deposits received from reinsurers that represent the reinsurers' interest in the Company's financial assets / reinsurance assets (excluding reinsurers' share of provision for unearned premium).

					2020
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Debt securities	**50,689**	**50,689**	**—**	**—**	**—**
Reinsurers' share of claims provisions	**35,561**	**20,477**	**8,224**	**2,352**	**4,508**
Reinsurers' share of unearned premium provision	**61,670**	**50,307**	**10,860**	**503**	**—**
Receivables	**66,805**	**66,805**	**—**	**—**	**—**
Cash and cash equivalents	**38,414**	**38,414**	**—**	**—**	**—**
Total financial assets	**253,139**	**226,692**	**19,084**	**2,855**	**4,508**

					2019
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Debt securities	50,597	50,597	—	—	—
Reinsurers' share of claims provisions	35,729	22,498	7,365	1,858	4,008
Reinsurers' share of unearned premium provision	64,174	51,838	11,833	503	—
Receivables	70,182	70,182	—	—	—
Cash and cash equivalents	28,606	28,606	—	—	—
Total financial assets	249,288	223,721	19,198	2,361	4,008

The reinsurance assets above are analysed using the estimated timing of expected cash flows. The other assets are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

Oversight of liquidity risk for the Company is undertaken by the Board.

Notes to the financial statements (continued)

(d) General insurance risk

General insurance risk in the Company arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inadequate claims reserving assumptions;
- *Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and*
- Inadequate reinsurance protection or other risk transfer techniques.

The general insurance business underwritten by the Company is predominantly of a short-tail nature such as household insurance.

The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. The Company sets its own underwriting strategy, consistent with the Group strategy. The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK.

Reserving processes are further detailed in note 14.

The adequacy of the Company's general insurance gross and net claims provisions is overseen by the Reserve and Projections Committee. Actuarial claims reserving is the responsibility of the Company's actuaries.

The Company's largest reinsurance arrangements include a 100% quota share reinsurance arrangement with its parent company, Aviva Insurance Limited, as described in note 23(a)(i), which has substantially reduced its net insurance risk exposure.

Oversight of insurance risks for the Company is undertaken by the Board.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has limited appetite for operational risk and aims to reduce these risks as far as is commercially sensible.

The Company's Operational Risk and Control Management Framework integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are initially identified and assessed against implemented controls. Residual risk outside tolerance is given prioritised management action to reduce it within tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

Oversight of operational risk for the Company is undertaken by the Board.

(f) Risk and capital management

The Company uses a number of risk management tools to understand the volatility of its capital requirements and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

(i) General insurance

General insurance liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. As such in the analysis below, the sensitivities of general insurance claims liabilities are primarily based on the financial impact of changes to the reported loss ratio.

(ii) Sensitivity results

Some results of IFRS sensitivity testing for the Company's business are set out below. For each sensitivity the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rates	The impact of a change in market interest rates by ± 1%
Expenses	The impact of an increase in expenses by 10%
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%

The above sensitivity factors are applied using actuarial and statistical models. The impacts are shown in tables below:

Notes to the financial statements (continued)

Impact on profit before tax

31 December 2020	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross Loss Ratios +5%
	£'000	£'000	£'000	£'000
Gross of reinsurance	**448**	**(1,417)**	**(2,240)**	**(2,519)**
Net of reinsurance	**(1,401)**	**1,329**	**(563)**	**—**

Impact on shareholders' equity

31 December 2020	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross Loss Ratios +5%
	£'000	£'000	£'000	£'000
Gross of reinsurance	**448**	**(1,417)**	**(2,240)**	**(2,519)**
Net of reinsurance	**(1,401)**	**1,329**	**(563)**	**—**

Impact on profit before tax

31 December 2019	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross Loss Ratios +5%
	£'000	£'000	£'000	£'000
Gross of reinsurance	465	(1,277)	(2,163)	(2,860)
Net of reinsurance	(1,005)	872	(554)	—

Impact on shareholders' equity

31 December 2019	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross Loss Ratios +5%
	£'000	£'000	£'000	£'000
Gross of reinsurance	465	(1,277)	(2,163)	(2,860)
Net of reinsurance	(1,005)	872	(554)	—

The sensitivities in the above table are based on balances included in the 2020 income statement and statement of financial position at 31 December 2020.

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the LAE provision.

Limitations of sensitivity analysis

The sensitivity analyses do not take into account that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality there may be a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risks that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

Assets are held at fair value in accordance with the relevant accounting policy. All of such assets are valued based on quoted market information or observable market data.

(g) Coronavirus

The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and had a significant impact on the global economy, causing volatile equity markets and falls in interest rates. The impact of COVID-19 on the Company is well understood by the Board and management and significant mitigating actions have been taken. Nevertheless, COVID-19 remains an ongoing source of uncertainty with potential to further materially influence the Company's risk profile and require additional responses. The Company is keeping its strategy and pricing under review given changes in the risk profile of future new business and investment returns. We have been engaging closely with our regulators on the response to COVID-19.

Throughout the year the Company has remained operational, with most staff working from home. Staff have been provided with the support needed to ensure that we are there to support our customers when they need us most. Monitoring of operational risk has been enhanced to mitigate additional and changed risk exposures due to alternative ways of working.

The impact of COVID-19 on the Company's general insurance risk profile is not considered to be significant given that the Company underwrites personal household business, and the 100% quota share reinsurance arrangement with it's parent company, Aviva Insurance Limited.

The Company's balance sheet exposure and solvency position has been continually reviewed during the year. The Company aims to maintain strong solvency and liquidity positions and undertakes a range of stress and scenario testing, incorporating modelling of assets values and insurance liabilities, and including extreme scenarios.

Areas of increased conduct risk have been identified in relation to the financial vulnerability of customers, product suitability and product value, In response, the Company has taken action to support the needs of different customer groups, including extensions of cover and payment deferrals. The value of products

Notes to the financial statements (continued)

to customers is continuously reviewed with actions taken as appropriate. We continue to work closely with the FCA and the ABI to ensure that steps to support customers remain appropriate.

(h) Exit of the UK from the EU & UK-EU Free Trade Agreement ("FTA")

The EU-UK Trade and Cooperation Agreement of 24 December 2020 provides for a dynamic future EU-UK relationship with scope for managed policy divergence or maintaining alignment, if the UK chooses. The agreement will have evolving consequences on 2021 and beyond on financial services regulation, EU market access and the UK economy which will require careful monitoring. Necessary operational steps have been taken to ensure continuous service to customers during the transition period and since the agreement came into force.

(i) GI Pricing Market Study Interim Report

During 2020 the FCA published their Market Study on General Insurance Pricing Practices. Aviva are supportive of the findings and have provided input to the consultation on the detailed implementation. A programme of work has been mobilised to enable to Company to respond effectively during 2021.

(j) Climate Change

Aviva remains committed to supporting a low carbon economy that will improve the resilience of our economy, society and the financial system in line with the 2015 Paris Agreement target on climate change. We are acting now to mitigate and manage the impact of climate change on our business. Aviva calculate a Climate Value at Risk against IPCC scenarios to assess the climate-related risks and opportunities under different emission projections and associated temperature pathways. A range of different financial indicators are used to assess the impact on our investments and insurance liabilities.

23. Related party transactions

The Company has the following transactions with related parties which include parent companies, subsidiaries, associates and fellow subsidiaries in the normal course of business.

(a) The Company had the following related party transactions

(i) Quota share arrangement

The Company has a quota share reinsurance arrangement with Aviva Insurance Limited, with effect from 1 January 2006.

The key terms of the agreement remain:

- a 100% cession rate on premiums, claims costs and underwriting expense costs is applied in respect of the underwriting year; and
- a requirement for the Company to retain a percentage in relation to the Financial Services Compensation Scheme levy.

The premiums, claims and expenses which have been reinsured to Aviva Insurance Limited under the arrangement are:

	2020 £'000	2019 £'000
Premiums earned	**110,466**	114,842
Claims incurred	**(45,872)**	(53,315)
Fee, commission and operating expenses	**(63,378)**	(58,188)
Net result	**1,216**	3,339

As at 31 December 2020, the balances in the statement of financial position relating to this arrangement are:

	2020 £'000	2019 £'000
Reinsurance assets	**89,250**	92,464
Payable arising out of ceded reinsurance	**(64,611)**	(69,685)
Reinsurers' share of deferred acquisition costs	**(20,443)**	(21,367)

(ii) *Structured settlements arrangement*

The Company has an arrangement with Aviva Life & Pensions UK Limited, a fellow Group company, for the outwards reinsurance of its obligations in respect of structured settlements, also known as periodic payment orders. The amounts charged to the income statement for the year under the arrangement are:

	2020 £'000	2019 £'000
Change in reinsurance assets	**776**	989
Net result ceded	**776**	989

As at 31 December 2020, the balance in the statement of financial position relating to this arrangement is:

	2020 £'000	2019 £'000
Reinsurance asset (including unearned premium provision)	**6,454**	5,678

Notes to the financial statements (continued)

(iii) *Other transactions - provided to and by related parties*

			2020			2019
	Expenses incurred in the year	Payable at year end	Receivable at year end	Expenses incurred in the year	Payable at year end	Receivable at year end
			£'000			£'000
Parent	**22,421**	**(33,896)**	**—**	22,461	(13,073)	—
	22,421	**(33,896)**	**—**	22,461	(13,073)	—

Expense incurred in the year of £22,421 thousand (*2019*: £17,965 thousand) represents recharges of costs payable to Aviva Insurance Limited, the Company's parent.

Amounts payable to group undertakings includes tax liabilities of prior years, amounting to £nil thousand (*2019*: £1,068 thousand), which are expected to be settled by way of group relief with other Aviva Group companies within one year.

(b) Key management compensation

The key management of the Company are considered to be the statutory directors of the Company. Note 4, Directors' remuneration, gives details of their compensation as directors of the Company.

(c) Immediate Parent entity

The Company's immediate parent company is Aviva Insurance Limited, registered in Scotland.

(d) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.