Registered in England and Wales: No. 02355834

RAC INSURANCE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

RAC Insurance Limited

Contents

RAC Insurance Limited

Company information

Directors:

J Baker
P Gale
D Hobday
R Templeman
G M Wood

Company Secretary:

P Barrett

Auditor:

Deloitte LLP
Statutory Auditor
3 Rivergate
Temple Quay
Bristol
United Kingdom
BS1 6GD

Registered office:

RAC House
Brockhurst Crescent
Walsall
West Midlands
United Kingdom
WS5 4AW

Company number:

Registered in England and Wales: No. 02355834

Other information:

RAC Insurance Limited is authorised and regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

RAC Insurance Limited ("the Company") is a member of the RAC Group of Companies ("the Group"), which during 2018 included RAC Midco Limited, RAC Finance Limited, RAC Finance Group Limited, RAC Finance (Holdings) Limited, RAC Midco II Limited, Nebula Systems Limited (until 25 January 2018), Maverick Technology (UK) Limited (until 25 January 2018), RAC Bidco Limited, RAC Bond Co plc, RAC Limited, RAC Group Limited, RAC Motoring Services (Holdings) Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Brand Enterprises LLP, RAC Cars Limited (formerly Net Cars Limited) and Risk Telematics UK Limited.

These Financial Statements are presented for the year ended 31 December 2018. Comparatives are presented for the year ended 31 December 2017.

RAC Insurance Limited

Strategic report
For the year ended 31 December 2018

Basis of preparation

This business review is addressed to, and written for, the Members of the Company with the aim of providing a fair review of business development and performance during the financial year and position at the end of the financial year . In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business.

Principal activity

The principal activity of the Company is the provision of insurance relating to roadside assistance and legal expenses products sold by other Group companies.

Review of the business including major events

There were no other major events during the current or prior year.

Objectives and future developments

The strategy for the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the Annual Report and Financial Statements of that Company.

Key Performance Indicators ("KPIs")

The financial KPIs set out in the table below are fundamental to the Company's business and reflect focus on the drivers of value that will enable and inform the management team to achieve the Company's business plans, strategic aims and objectives.

	2018	**2017**
Increase in net written premiums	2%	6%
Combined operating ratio	84%	83%
Net incurred claims ratio	68%	65%
Net written expenses ratio	16%	18%

The Company also uses a range of other financial and non-financial performance indicators to monitor performance.

The KPIs presented provide management with analysis of the underwriting profitability of the products underwritten by the Company.

The net incurred claims ratio compares the claims paid and the movement in the claims provision, net of reinsurance, against net earned premiums. The net written expenses ratio compares other operating expenses to net written premiums. The combined operating ratio compares the total of the net incurred claims ratio and the net written expenses ratio.

Financial review

The financial position of the Company as at 31 December 2018 is shown in the Statement of financial position on page 16, with the trading results shown in the Income statement on page 14 and the Statement of cash flows on page 18.

Profit before tax increased by £95 thousand to £2,695 thousand (2017: increase of £644 to £2,600 thousand). This was primarily driven by a £274 thousand increase in net earned premiums and a £296 thousand reduction in the claims provision; this was offset by growth in claims paid net of reinsurance of £536 thousand. A reversal of prior period impairment on the investment property of £90 thousand also contributed to profit before tax.

The increase in net earned premiums was driven by strong sales volume growth and this also resulted in an increase in claims paid net of reinsurance. A small increase in the claims frequency was also seen which impacted on claims cost.

It is the Company's intention to maintain its operating margin, whilst adhering to strict underwriting disciplines.

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 18, contingent liabilities and other risk factors are set out in note 16 to the Financial Statements.

Brexit risk

The Group defines Brexit risk as the risk of adverse economic conditions in light of increased uncertainty following the UK referendum decision to leave the European Union.

Whilst there remains uncertainty over the outcome of Brexit, the Company is a UK focused business with limited business outside of the UK's borders. We expect to be able to continue providing service in other European countries, through existing partnerships. Should there be any negative impact from Brexit to growth prospects for the UK economy, our business has proved in the past to be resilient during recessionary times. The Group continues to monitor the impact of the Brexit vote and will take appropriate steps to maintain its competitive position. The Company has also engaged with key suppliers in order to ensure the continuity of service following Brexit.

The Directors have also considered the impact of the uncertainty on the Company's key financial balances. The Company has no investments outside of the UK and the cash and cash equivalents balance is not materially impacted by changes in interest rates which could be impacted by Brexit uncertainty. The Directors therefore do not consider that this risk will have a material impact on the key financial balances of the Company.

Capital management

In managing its capital, the Company seeks to:

i. Match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;
ii. Maintain financial strength to support new business growth and to satisfy the requirements of its members and regulators;
iii. Retain financial flexibility by maintaining strong liquidity; and
iv. Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

RAC Insurance Limited

Strategic report (continued)
For the year ended 31 December 2018

General

The Company is a regulated company which holds sufficient capital to meet acceptable solvency levels based on applicable PRA regulations. The Company has been fully compliant with the requirements of Solvency II since 1 January 2016 with Minimum Capital Requirement cover and Solvency Capital Requirement cover of over 2.5 times throughout the year.

Regulatory bases

Relevant capital and solvency regulations are used to measure and report on the financial strength of the Company. These measures are based on the PRA's current regulatory requirements. Regulatory capital tests verify adequate excess of solvency capital above the required minimum level calculated using a series of prudent assumptions about the type of business that is underwritten. There have not been any regulatory breaches in the reported periods.

As approved by the Board on 10 April 2019

P Barrett
Company Secretary

RAC Insurance Limited

Directors' report
For the year ended 31 December 2018

The Directors present their Annual Report on the affairs of RAC Insurance Limited, together with the audited Financial Statements for the year ended 31 December 2018.

Directors

The names of the current Directors of the Company appear on page 1.

Those in office during the year and up to the date of signing have been as follows:

J Baker (appointed 2 July 2018)

R Fairman (resigned 27 February 2018)

P Gale

D Hobday

R Templeman

G M Wood

None of the Directors had any interest in the shares of the Company during the year.

Objectives and future developments

The Company's strategy is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and is disclosed in the Annual Report and Financial Statements of that Company (see note 19(f))

Dividends

An interim dividend of £6,500 thousand was paid during the year (2017: £nil) and the Directors do not recommend payment of a final dividend (2017: £nil).

Employees

The Company has no employees. All employees of the Group are employed and remunerated by RAC Motoring Services, a fellow Group company. Disclosures relating to employees may be found in the Annual Report and Financial Statements of RAC Bidco Limited.

Directors' indemnities

RAC Group (Holdings) Limited, the Company's ultimate Parent Company, has 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 2006. The indemnity was first granted in 2011 to the Directors of the then RAC Group holding company and was novated to the Directors of this Company in December 2014. The provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of section 236 of the Companies Act 2006. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report by virtue of the transitional provisions of the Companies Act 2006.

RAC Insurance Limited

Directors' report (continued)

For the year ended 31 December 2018

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a profit of £2,183 thousand for the year ended 31 December 2018 (2017: £2,098 thousand) and at 31 December 2018 had net assets of £11,558 thousand (2017: £15,875 thousand). The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report on pages 2 to 4. Details of cash facilities are set out in note 11 to the Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 18 to the Financial Statements.

The Directors have assessed the financial position and the prospects and future funding requirements of the Company and compared them to the level of available committed borrowing facilities. This assessment included a review of the Group's financial forecasts and financial instruments for the 15 month period from the Statement of financial position date. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its bank debt. The Directors also consider what mitigating actions the Group could take to limit any adverse

The Company has net assets of £11,558 thousand (2017: £15,875 thousand). The Directors have considered the financial position and future prospects of the Company. Accordingly, the Directors continue to adopt the going concern basis in preparing the 2018 Annual Report and Financial Statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

Auditor

Deloitte LLP has expressed their willingness to continue in office as auditor of the Company and Group, their reappointment will be put to shareholders at the AGM.

Disclosure of information to the auditor

Each person who was a Director of the Company on the date that this report was approved confirms that, so far as the Director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Strategic Report

The Companies Act 2006 requires the Company to prepare a Strategic Report, set out on pages 2 to 4. The Strategic Report includes information about the Company's operations and business model, financial performance throughout the year, likely future developments, key performance indicators, and principal risks.

RAC Insurance Limited

Directors' report (continued)

For the year ended 31 December 2018

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual 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 elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Events since the Statement of financial position date

There have been no events since the Statement of financial position date which have a material impact on the Company's financial position as at 31 December 2018.

Approved by the Board on 10 April 2019

P Barrett
Company Secretary

RAC Insurance Limited

Independent auditor's report to the members of RAC Insurance Limited

In our opinion the financial statements of RAC Insurance Limited plc (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of RAC Insurance Limited (the "Company") which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of changes in equity;
- the Statement of cash flows;
- the Accounting policies; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year related to the outstanding claims provisions.
Materiality	The materiality that we used in the current year was £353k which was determined on the basis of 3% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit team.

RAC Insurance Limited

Independent auditor's report to the members of RAC Insurance Limited (continued)

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Key audit matters

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

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

Outstanding claims provisions	
Key audit matter description	Total gross provisions for outstanding claims at 31 December 2018 were £221k (2017: £738k). Within this balance are provisions for incurred but not reported long tail legal expense claims, which are the largest single area of judgement within the Company's financial statements. Significant management judgment is required to determine an appropriate methodology to best reflect the nature of the claims payable, especially for cases involving children, where the time between an incurred event and the corresponding claims payment could be up to 6 years or more. Significant management estimates are also required for variables such as the number and quantum of claims expected to be paid in future years. These estimates are based on historical claims data from previous years. Management changed its approach in estimating the long tail legal expense claims in the current year by considering data aggregated across all exposure types. This resulted in a material release of reserves to the profit and loss account. The key audit matter is focused on the appropriateness of the underlying methodology of the provision calculation and reasonableness of the key estimates inputted into the provision calculation. Due to the significant level of judgement relating to this balance, we have also determined this to be a potential fraud risk. Further details are included in the critical accounting judgements and key sources of estimation uncertainty section within accounting policies on page 25 and note 13 to the financial statements.
How the scope of our audit responded to the key audit matter	We have assessed the design and implementation of controls relating to the estimation of the collective reserves for the long tail legal expense claims provision. We involved an actuarial expert in testing the relevance of the reported claims over the years and average claim expense data used in forming the basis of management's estimation. We reviewed the methodology used in estimating the long tail legal expense claims reserves. We challenged the reasonableness of the assumptions applied by management for the future cash flows. Our key challenge was around how costs beyond 6 years had been allowed for in the calculation.

RAC Insurance Limited

Independent auditor's report to the members of RAC Insurance Limited (continued)

Outstanding claims provisions (continued)	
How the scope of our audit responded to the key audit matter (continued)	We analysed the appropriateness of the prior years' reserves against the total claims paid between 2011 and 2017. We also reviewed management's reserves calculations for mechanical accuracy. Additionally, we tested the underlying data for accuracy and completeness by agreeing the policy count data to the number of policies in-force, which were tested as part of our audit of the gross written premium. We also agreed a sample of historical claims payments to supporting invoices.
Key observations	We found that the approach adopted by the Company was in line with industry practice and reasonable. Overall we assessed the current level of the provision held to be reasonable taking into consideration the experience analysis.

Our application of materiality

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

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

Materiality	£353,000
Basis for determining materiality	3% of net assets
Rationale for the benchmark	We have determined this benchmark to be appropriate given the shareholder's focus on capital requirements.

We agreed with the Audit Committee that we would report all audit differences in excess of £18k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the Financial Statements and our Auditor's report thereon.

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

We have nothing to report in respect of these matters.

Other information (continued)

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

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

We have nothing to report in respect of these matters.

Statement of Director's responsibilities

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management, internal audit, internal legal counsel, and the audit committee, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

RAC Insurance Limited

Independent auditor's report to the members of RAC Insurance Limited (continued)

Identifying and assessing potential risks related to irregularities (continued)

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations

- discussing among the engagement team and involving relevant internal specialists, including tax, actuarial experts and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in relation to outstanding claims provisions; and
- obtaining an understanding of the legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the legislation imposed by the Financial Conduct Authority (FCA), Prudential Regulation authority (PRA), Companies Act 2006 and tax legislations.

Audit response to risks identified

As a result of performing the above, we identified the outstanding claims provision as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

RAC Insurance Limited
Independent auditor's report to the members of RAC Insurance Limited (continued)

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee of RAC Group (Holdings) Limited, we were appointed by the Board of Directors in May 2014 to audit the Financial Statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement, including previous renewals and reappointments of the Firm is five years, covering the years ending 31 December 2014 to 31 December 2018.

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

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

Use of our report

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

A J Holland

Andrew Holland FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, UK
10 April 2019

RAC Insurance Limited
Financial Statements 2018
Income statement

For the year ended 31 December 2018

	Note	2018	2017
		£000	£000
Income	1		
Gross written premiums		14,126	13,538
Premiums ceded to reinsurers		(893)	(535)
Premiums written, net of reinsurance		13,233	13,003
Net change in provision for unearned premiums		(180)	(202)
Net earned premiums		13,053	12,801
Other operating income		436	393
Net investment income		64	24
Other charges, including value adjustments	8	90	-
		13,643	**13,218**
Expenses	2		
Claims paid, net of reinsurance		(9,361)	(8,604)
Change in claims provisions, net of reinsurance		518	298
Other operating expenses		(2,126)	(2,312)
		(10,969)	**(10,618)**
Profit before tax		**2,674**	**2,600**
Tax charge	7	(508)	(502)
Profit for the year		**2,166**	**2,098**

The accounting policies and notes on pages 19 to 43 are an integral part of these Financial Statements.

RAC Insurance Limited
Financial Statements 2018 (continued)
Statement of comprehensive income
For the year ended 31 December 2018

	Note	2018	2017
		£000	£000
Profit for the year		2,166	2,098
Other comprehensive income not to be reclassified to profit or loss in subsequent years:			
Net other comprehensive income not to be reclassified to profit or loss in subsequent years		-	-
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year		**2,166**	**2,098**

The accounting policies and notes on pages 19 to 43 are an integral part of these Financial Statements.

RAC Insurance Limited
Financial Statements 2018 (continued)
Registered in England and Wales: No. 02355834
Statement of financial position

As at 31 December 2018

	Note	2018	2017
		£000	£000
ASSETS			
Investment property	8	2,900	2,810
Reinsurance assets	9	455	308
Receivables	10	9,743	8,249
Cash and cash equivalents	11	7,935	12,130
		21,033	**23,497**
LIABILITIES			
Insurance liabilities	13(a)	(7,341)	(7,531)
Other payables	12	(2,151)	(91)
		(9,492)	**(7,622)**
Net assets		**11,541**	**15,875**
EQUITY			
Ordinary share capital	15	7,250	7,250
Retained earnings		4,291	8,625
Total equity		**11,541**	**15,875**

The accounting policies and notes on pages 19 to 43 are an integral part of these Financial Statements.

Approved by the Board on 10 April 2019

J Baker
Chief Financial Officer

RAC Insurance Limited
Financial Statements 2018 (continued)
Statement of changes in equity

For the year ended 31 December 2018

	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	**7,250**	**6,527**	**13,777**
Profit for the year	-	2,098	2,098
Other comprehensive income for the year	-	-	-
Total comprehensive income	-	2,098	2,098
Balance at 31 December 2017	**7,250**	**8,625**	**15,875**
Profit for the year	-	2,166	2,166
Other comprehensive income for the year	-	-	-
Total comprehensive income	-	2,166	2,166
Dividend paid	-	(6,500)	(6,500)
Balance at 31 December 2018	**7,250**	**4,291**	**11,541**

The accounting policies and notes on pages 19 to 43 are an integral part of these Financial Statements.

RAC Insurance Limited
Financial Statements 2018 (continued)
Statement of cash flows

For the year ended 31 December 2018

	Note	2018	2017
		£000	£000
Operating activities			
Profit before tax		2,674	2,600
Adjustments to reconcile profit before tax to net cash flows:			
Gain from fair value adjustment of investment property (non-cash)	8	(90)	-
Increase in reinsurance assets (non-cash)	9(c)	(147)	(70)
Decrease/(increase) in receivables (non-cash)	10	(1,494)	(2,070)
Increase/(decrease) in insurance liabilities (non-cash)	13(a)	(190)	(27)
Decrease in payables and other financial liabilities	12	1,552	(411)
Net cash inflow from operating activities		**2,305**	**22**
Investing activities			
Dividend paid	4	(6,500)	-
Net cash outflow from investing activities		**(6,500)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(4,195)**	**22**
Cash and cash equivalents at 1 January		12,130	12,108
Cash and cash equivalents at 31 December	**11**	**7,935**	**12,130**

The accounting policies and notes on pages 19 to 43 are an integral part of these Financial Statements.

RAC Insurance Limited

Accounting policies

(A) Corporate information

The Company is a private limited liability company, incorporated and domiciled in the United Kingdom, registered in England & Wales. The principal activity of the Company is the provision of insurance relating to roadside assistance and legal expenses insurance. The registered office is located at RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW.

Information on other related party relationships of the Company is provided in note 19.

The Financial Statements of RAC Insurance Limited for the year ended 31 December 2018 were approved for issue by the Board on 10 April 2019.

(B) Basis of preparation

The Financial Statements of the Company have been prepared on the historical cost basis, except for certain properties that are measured at fair value, as explained in the accounting policies. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

The Financial Statements are presented 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").

Adoption of new International Financial Reporting Standards

The Company has adopted IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' with effect from 1 January 2018. The adoption of IFRS 9 has not had any material impact on the Company's Financial Statements.

In adopting IFRS 16 'Leases', the Group has utilised the cumulative catch up approach for initial recognition of assets and liabilities. The effect on the RAC Insurance Ltd Financial Statements is to recognise lease income as required by IFRS 16 on a straight line basis over the lease term.

The implementation of IFRS 15 was not material as the Company recognises revenue in accordance with IFRS 4.

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a profit of £2,183 thousand for the year ended 31 December 2018 (2017: £2,098 thousand) and at 31 December 2018 had net assets of £11,558 thousand (2017: £15,875 thousand). The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report on pages 2 to 4. Details of cash facilities are set out in note 11 to the Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 18 to the Financial Statements.

RAC Insurance Limited

Accounting policies (continued)

(B) Basis of preparation (continued)

Going concern (continued)

The Directors have assessed the financial position and the prospects and future funding requirements of the Company and compared them to the level of available committed borrowing facilities. This assessment included a review of the Group's financial forecasts and financial instruments for the 15 month period from the Statement of financial position date. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its bank debt. The Directors also consider what mitigating actions the Group could take to limit any adverse consequences.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

(C) Product classification

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 or service contracts.

Accounting for insurance contracts, as allowed by IFRS 4, was previously determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005 and amended in December 2006. The Statement of Recommended Practice has now been withdrawn, but there have been no changes to the methodology followed.

(D) Premiums earned

Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses. 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. Unearned premiums are computed on a monthly pro rata basis.

(E) Other operating income

Lessor income

The Group has adopted IFRS 16 with effect from 1 January 2018, the cumulative catch-up approach has been applied and therefore the comparative information has not been restated.

Lease payments received under operating leases are recognised as income on a straightline basis over the lease term as part of 'other operating income'. The lease payments are a fixed cost and not subject to changes in any index or rate.

(F) Net investment income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Accounting policies (continued)

(G) Insurance contract liabilities

Claims

Insurance claims incurred includes an estimate of all losses occurring during the year, whether reported or not, loss adjustment expenses, a reduction for the value of salvage and other recoveries, and any adjustments to claims incurred in previous years.

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

Outstanding claims provisions

Insurance 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 loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, the ultimate cost of which cannot be known with certainty at the statement of financial position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 13(c).

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 recognised in the Income statement in order that revenue is recognised 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 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 general business provisions. If these estimates show that the carrying amount of its insurance liabilities 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.

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 would not be included within insurance liabilities but would be included under "other payables" in the Statement of financial position.

(H) Reinsurance

The Company cedes reinsurance in the normal course of business in respect of two add-on products. The cost of reinsurance is accounted for over the life of the underlying reinsurance policies.

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

RAC Insurance Limited

Accounting policies (continued)

(H) Reinsurance (continued)

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.

(I) Investment property

Investment properties are carried at their revalued amounts, being the fair value at the date of revaluation, which are supported by market evidence. A gain or loss arising from movement in the fair value of the investment property is recognised in the Income statement in the period in which it occurs. Third party valuations are obtained every three years to support management's internal valuations, carried out on an annual basis.

Gains and losses on disposal of investment property are determined by reference to their carrying amount and are recorded in the Income statement.

(J) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand and deposits held at call with banks. 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. 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 in the Statement of financial position.

(K) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

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 yet still possible or the amount cannot be reliably estimated.

(L) Loans and receivables

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, up to the amount of the provision, but only when the reimbursement is virtually certain.

(i) Impairment of financial assets

An impairment is recognised on financial assets if there is considered to be expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the Income statement in finance costs for loans and in other operating expenses for other receivables.

(M) Income taxes

Income taxes include both current and deferred taxes. Income taxes are charged/credited to the Income statement except where they relate to items charged/credited directly to other comprehensive income or equity. In this instance, the income taxes are also charged/credited directly to other comprehensive income or equity respectively.

Current tax is the expected tax payable or receivable on the Company's taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not provided for the initial recognition of goodwill, nor the initial recognition of assets or liabilities that affect neither the accounting profit nor taxable profit or loss other than in a business combination.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which assets can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred income tax assets and liabilities are offset where taxes are levied by the same taxation authority, there is a legal right of offset between the assets and liabilities and there is an intention to settle on a net basis.

(N) Share capital and dividends

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 will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

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.

RAC Insurance Limited

Accounting policies (continued)

(O) Application of new and revised International Financial Reporting Standards

The following new and amended IFRSs are effective for the 2018 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Company's Financial Statements.

- IFRS 9 Financial Instruments (See Note (B) on page 19)
- IFRS 15 Revenue from Contracts with Customers (See Note (B) on page 19)
- IFRS 16 Leases (See Note (E) on page 20)
- IFRIC 22 Foreign currency transactions and advance consideration

At 31 December 2018, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRIC 23 Uncertainty over income tax treatments [1]
- IFRS 17 Insurance contracts [2]

1 Effective for annual periods commencing on or after 1 January 2019

2 Effective for annual periods commencing on or after 1 January 2021

The Company is currently in the process of evaluating the impact of the adoption of IFRIC 23 and IFRS 17 on the Company's financial reporting. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

(P) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Financial Statements in conformity with IFRS requires the Company to make estimates and judgements using assumptions that affect items reported in the Statement of financial position and Income statement and the disclosure of contingent assets and liabilities at the reporting date. Estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions. Actual results may differ from those estimates, possibly significantly. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Set out below are items where management have taken a judgement or which management consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

(i) Critical judgements in applying the Company's accounting policies

There are no critical judgements apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies on the amounts recognised in the Financial Statements.

RAC Insurance Limited

Accounting policies (continued)

(P) Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of financial position date are discussed below:

Insurance liabilities

Insurance 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 loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, the ultimate cost of which cannot be known with certainty at the Statement of financial position date. Refer to note 13 for details of the outstanding claims provision.

Fair value measurements and valuation process

The Company measures non-financial assets including owner-occupied properties, at fair value at each reporting date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

RAC Insurance Limited

Notes to the Financial Statements

1 Income

	2018 £000	2017 £000
Premiums earned		
Gross written premiums	14,126	13,538
Less: Premiums ceded to reinsurers	(893)	(535)
Gross change in provision for unearned premiums	(327)	(272)
Reinsurers' share of change in provision for unearned premiums	147	70
Net change in provision for unearned premiums	(180)	(202)
Net earned premiums	13,053	12,801
Other operating income	436	393
Total revenue	13,489	13,194
Net investment income	64	24
Other income (note 8)	90	-
Total income	**13,643**	**13,218**

2 Expenses

	2018 £000	2017 £000
Claims paid, net of reinsurance		
Claims paid to policyholders	9,570	8,751
Less: Claims recoveries from reinsurers	(209)	(147)
	9,361	8,604
Change in claims provisions, net of reinsurance		
Change in net claims provisions (see note 13(d))	(518)	(298)
	8,843	8,306
Fee and commission expenses		
Other operating expenses	2,126	2,312
Total expenses	**10,969**	**10,618**

RAC Insurance Limited

Notes to the Financial Statements (continued)

3 Employee information

The Company has no employees. All employees of the Group are employed and remunerated by RAC Motoring Services, a fellow Group Company. Disclosures relating to employees may be found in the Consolidated Annual Report and Financial Statements of RAC Bidco Limited.

4 Dividends

The Group paid interim dividends of £6,500 thousand during the year, amounting to 89.66 pence per share (2017: £nil). No final dividend was paid in the year ended 31 December 2018 (31 December 2017: £nil).

5 Directors

Executive Directors of the Company are remunerated as employees of RAC Motoring Services, a fellow Group Company. Management recharges for the wider executive group, which includes the executive Directors of the Company, have been charged to the main trading subsidiaries of the Group, which includes RAC Insurance Limited. It is not deemed practical to separate the remuneration of the executive Directors from the wider management recharges.

Disclosures relating to Directors' remuneration can be found in the Annual Report and Audited Financial Statements of RAC Group (Holdings) Limited.

6 Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Deloitte LLP, is shown below.

	2018	2017
	£000	£000
Audit services		
Statutory audit of the Company's Financial Statements	16	13
Other services		
Audit related assurance services	20	20
Total remuneration payable to Deloitte LLP	**36**	**33**

Audit fees are borne and paid by RAC Motoring Services, a fellow Group Company.

RAC Insurance Limited

Notes to the Financial Statements (continued)

7 Tax

(a) Tax charged to the income statement

	2018	2017
	£000	£000
Current tax:		
For the year	508	501
Adjustment in respect of prior years	-	1
Total current tax	508	502
Total tax charged to the income statement	**508**	**502**

(b) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate in the UK as follows:

	2018	2017
	£000	£000
Profit before tax	2,674	2,600
Tax calculated at standard UK corporation tax rate of 19.00% (2017: 19.25%)	508	501
Adjustment to tax charge in respect of previous periods - corporation tax	-	1
Total tax charged to the income statement (note 7(a))	**508**	**502**

The headline rate of UK corporation tax reduced to 19% from 1 April 2017, and will reduce to 17% from 1 April 2020.

The Company has unrecognised unrealised capital losses of £7,768 thousand (2017: £7,858 thousand) to carry forward indefinitely. On realisation these could be set against future capital gains.

8 Investment property

	Investment property
	£000
Cost and valuation:	
At 1 January 2017	2,810
At 31 December 2017	**2,810**
Gain from fair value adjustment recognised in income statement	90
At 31 December 2018	**2,900**

During 2018, the property was reclassified from Property, Plant and Equipment to Investment Property to better reflect the use of the asset by the Company as rentals are received. This had no material impact on the financial statements. The property is held at fair value, level 2 in the hierachy in accordance with IFRS 13 and in line with the Company's accounting policy, the property was revalued during 2018 by Colliers International, an accredited independent valuer. If the investment occupied property was measured using the cost model, the cost would be £3,000 thousand.

9 Reinsurance assets

(a) Carrying amount

Gross reinsurance assets at 31 December comprise:

	2018	2017
	£000	**£000**
Provision for unearned premiums	455	308

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in note 13(c).

Reinsurance assets are valued net of any provisions for their recoverability.

9 Reinsurance assets (continued)

(c) Movements

Reinsurers' share of the provision for unearned premiums:

	2018	2017
	£000	£000
Carrying amount at 1 January	**308**	**238**
Premiums ceded to reinsurers in the year	893	535
Less: reinsurers' share of premiums earned during the year	(746)	(465)
Change in reinsurance asset	147	70
Carrying amount at 31 December	**455**	**308**

10 Receivables

	2018	2017
	£000	£000
Amounts due from reinsurers	14	9
Amounts due from intermediaries - related parties (note 19 (a)(ii))	9,724	8,227
Other receivables	5	13
Total	**9,743**	**8,249**
Expected to be recovered in less than one year	**9,743**	**8,249**

All receivables and other financial assets are carried at amortised cost. The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

11 Cash and cash equivalents

Cash and cash equivalents as at 31 December 2018 comprises of £7,935 thousand of cash at bank and in hand (2017: £12,130 thousand).

12 Other payables

	2018	2017
	£000	£000
Amounts due to intermediaries - related parties (note 19 (a)(ii))	2,125	-
Other payables	26	91
Total expected to be payable within one year	**2,151**	**91**

All payables are financial liabilities and carried at amortised cost which is considered to be a reasonable approximation of the fair value.

Within the cash flow statement, "Decrease in payables and other financial liabilities" is stated after adjusting for £508 thousand (£502 thousand) of corporation tax liability settled by group relief.

RAC Insurance Limited

Notes to the Financial Statements (continued)

13 Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprise:	2018	2017
	£000	£000
Provisions for outstanding claims (see note 13(d))	221	738
Provision for unearned premiums (see note 13(f))	7,120	6,793
Total	**7,341**	**7,531**

(b) 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 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.

Outstanding claims includes a provision of £nil (2017: £30 thousand) for "After The Event" insurance cover. The Company stopped writing new "After The Event" business in 2008. No further claims are anticipated for this insurance cover.

The Company is permitted to undertake various types of general insurance business, including Assistance and Legal Expenses insurance.

(c) Judgements

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set taking into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections.

No adjustments are made to the case estimates included in booked claims provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted 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 claims projection techniques. The main judgement underlying these techniques is that the 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 claims numbers based on the observed development of earlier years and expected loss ratios.

RAC Insurance Limited

Notes to the Financial Statements (continued)

13 Insurance liabilities (continued)

(d) Movements

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

	2018	2017
	£000	£000
Carrying amount at 1 January	**738**	**1,037**
Claims losses and expenses incurred in the current year	9,655	8,966
Claims losses and expenses incurred in prior years	(601)	(335)
Incurred claims losses and expenses	9,054	8,631
Less:		
Payments made on claims incurred in the current year	(9,518)	(8,873)
Payments made on claims incurred in prior years	(53)	(57)
Claims payments made in the year	(9,571)	(8,930)
Carrying amount at 31 December	**221**	**738**

(e) Loss development tables

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the accident years 2008 to 2018. The upper half of the table shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2009, by the end of 2018, £9,889 thousand had actually been paid in settlement of gross claims.

Any change from the original estimate could generally be a combination of a number of factors, including claims being settled for larger or smaller amounts than originally estimated. The original estimates may also be increased or decreased, as more information becomes known about the individual claims and overall claims frequency and severity patterns.

13 Insurance liabilities (continued)

(e) Loss development tables (continued)

Accident year	All Prior Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross cumulative claims payments												
At end of accident year		(9,624)	(8,446)	(7,580)	(7,372)	(7,157)	(6,830)	(7,336)	(8,435)	(8,873)	(9,518)	
One year later		(9,889)	(8,622)	(7,688)	(7,536)	(7,212)	(6,888)	(7,337)	(8,492)	(8,931)		
Two years later		(9,889)	(8,622)	(7,774)	(7,536)	(7,212)	(6,888)	(7,337)	(8,492)			
Three years later		(9,889)	(8,656)	(7,797)	(7,536)	(7,212)	(6,888)	(7,337)				
Four years later		(9,889)	(8,656)	(7,797)	(7,536)	(7,212)	(6,888)					
Five years later		(9,889)	(8,656)	(7,797)	(7,536)	(7,212)						
Six years later		(9,889)	(8,656)	(7,797)	(7,536)							
Seven years later		(9,889)	(8,656)	(7,797)								
Eight years later		(9,889)	(8,656)									
Nine years later		(9,889)										
Estimate of gross ultimate claims												
At end of accident year		9,889	8,622	7,853	7,978	7,212	7,031	7,451	8,676	8,966	9,655	
One year later		9,889	8,788	7,944	7,978	7,214	7,028	7,341	8,495	8,931		
Two years later		10,054	8,722	7,944	7,963	7,214	7,036	7,350	8,492			
Three years later		9,889	8,722	7,948	7,963	7,212	6,938	7,337				
Four years later		9,889	8,722	7,948	7,930	7,212	6,888					
Five years later		9,889	8,722	7,921	7,905	7,212						
Six years later		9,889	8,722	7,911	7,620							
Seven years later		9,889	8,722	7,797								
Eight years later		9,889	8,656									
Nine years later		9,889										
Estimate of ultimate claims		9,889	8,656	7,797	7,620	7,212	6,888	7,337	8,492	8,931	9,655	
Cumulative payments		(9,889)	(8,656)	(7,797)	(7,536)	(7,212)	(6,888)	(7,337)	(8,492)	(8,931)	(9,518)	
Outstanding claims provisions recognised in the Statement of financial position	-	-	-	-	84	-	-	-	-	-	137	221

13 Insurance liabilities (continued)

(e) Loss development tables (continued)

After the effect of reinsurance, the loss development table is:

Accident year	All prior years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net cumulative claims payments												
At end of accident year		(8,778)	(7,672)	(7,024)	(6,815)	(7,043)	(6,713)	(6,949)	(8,019)	(8,547)	(9,308)	
One year later		(9,043)	(7,848)	(7,132)	(6,979)	(7,098)	(6,771)	(6,950)	(8,076)	(8,629)		
Two years later		(9,043)	(7,848)	(7,218)	(6,979)	(7,098)	(6,771)	(6,950)	(8,076)			
Three years later		(9,043)	(7,882)	(7,241)	(6,979)	(7,098)	(6,771)	(6,950)				
Four years later		(9,043)	(7,882)	(7,241)	(6,979)	(7,098)	(6,771)					
Five years later		(9,043)	(7,882)	(7,241)	(6,979)	(7,098)						
Six years later		(9,043)	(7,882)	(7,241)	(6,979)							
Seven years later		(9,043)	(7,882)	(7,241)								
Eight years later		(9,043)	(7,882)									
Nine years later		(9,043)										
Estimate of net ultimate claims												
At end of accident year		9,043	7,848	7,297	7,421	7,098	6,914	7,064	8,260	8,640	9,445	
One year later		9,043	8,014	7,388	7,421	7,100	6,911	6,954	8,079	8,629		
Two years later		9,208	7,948	7,388	7,406	7,100	6,919	6,963	8,076			
Three years later		9,043	7,948	7,392	7,406	7,098	6,821	6,950				
Four years later		9,043	7,948	7,392	7,373	7,098	6,771					
Five years later		9,043	7,948	7,365	7,348	7,098						
Six years later		9,043	7,948	7,355	7,063							
Seven years later		9,043	7,948	7,241								
Eight years later		9,043	7,882									
Nine years later		9,043										
Estimate of ultimate claims		9,043	7,882	7,241	7,063	7,098	6,771	6,950	8,076	8,629	9,445	
Cumulative payments		(9,043)	(7,882)	(7,241)	(6,979)	(7,098)	(6,771)	(6,950)	(8,076)	(8,629)	(9,308)	
Net outstanding claims provisions recognised in the Statement of financial position	-	-	-	-	84	-	-	-	-	-	137	221

RAC Insurance Limited

Notes to the Financial Statements (continued)

13 Insurance liabilities (continued)

(f) Provision for unearned premiums

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

	2018	2017
	£000	£000
Carrying amount at 1 January	**6,793**	**6,521**
Premiums written during the year	14,126	13,538
Less: premiums earned during the year	(13,799)	(13,266)
Change in year	327	272
Carrying amount at 31 December	**7,120**	**6,793**

14 Tax liabilities

All current tax liabilities have been settled via group relief as at 31 December 2018 (£508 thousand) and 31 December 2017 (£502 thousand). See the statement of cash flows and related party transactions (note 19(a)(iv)).

15 Ordinary share capital

Details of the Company's ordinary share capital are as follows:

	2018	2017
	£000	£000
Allotted, called up and fully paid		
7,250,000 (2017: 7,250,000) ordinary shares of £1 each	7,250	7,250

RAC Insurance Limited

Notes to the Financial Statements (continued)

16 Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 13(c) gives details of the estimation techniques used in determining the outstanding claims provisions. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where future claims inflation differs from that expected, there is uncertainty in respect of this liability, that is not able to be calculated.

Levy schemes

The Company pays contributions into various levy schemes in the UK including a pension levy scheme and a FSCS levy scheme, in respect of the Group's regulatory activities. The Directors continue to monitor the situation but are not aware of any need to increase provisions at the Statement of financial position date.

17 Lease arrangements

The contractual maturity dates of lease payments receivable under IFRS 16 are:

	2018
	£000
Within 1 year	562
Later than 1 year and not later than 5 years	2,108
Later than 5 years	-
	2,670

Lease arrangements arise in respect of a property lease. The Company acts as a lessor for one investment property and the lessee is RAC Motoring Services, a fellow Group Company, the risks associated with the property are mitigated on a group basis due to the nature of the lease.

18 Risk management

The Group operates a risk management framework, which is the collection of processes and tools that have been put in place to ensure that the risks to which the Group is exposed are identified, measured, managed, monitored and reported on a regular basis. The key instruments of the framework include the risk management policies, risk reports and the governance and oversight infrastructure.

18 Risk management (continued)

Risks are usually grouped by risk type: market, credit, liquidity, strategic, operational and regulatory risk. Risks falling within these types may affect a number of key metrics including those relating to Statement of financial position strength, liquidity and profit. They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation. The key risks faced by the Group are set out in this note.

The Group's measurement of risk is used to support the monitoring and reporting of the risk profile and in the evaluation of alternative risk management actions. The Group carries out a range of stress and scenario tests to evaluate their impact on the business and the management actions available to respond to the potential conditions.

The Company has an established governance framework, which has the following key elements:

- defined terms of reference for the Board and the associated executive management and other committees across the Group;
- a clear organisational structure with documented delegated authorities and responsibilities from the Board to executive management committees and senior management; and
- adoption of the risk policy framework that defines risk appetite measures and sets out risk management and control standards.

Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis.

(a) Treasury policy

The Group Treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group;
- Manage the interest risk of the Group's debt; and
- Ensure that the Group's banking and card transmissions operate effectively.

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group.

(i) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments as a result of fluctuations in interest rates and foreign currency exchange rates.

The Company has no borrowings based on market interest rates. Therefore there would be no impact in any reported year on profit before tax or shareholders' equity as a result of changes in market interest rates.

Interest rate movements on trade payables, trade receivables and other financial instruments do not present a material exposure to the Company's Statement of financial position.

The Company undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations. The level of foreign currency transactions is relatively low and so is not considered to present a material exposure to the Company's Statement of financial position.

18 Risk management (continued)

(a) Treasury policy (continued)

(ii) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is set out below:

	2018	2017
	£000	£000
Trade and other receivables (note 10)	9,743	8,249
Cash and cash equivalents (note 11)	7,935	12,130
	17,678	20,379

Management of credit risk is carried out in accordance with the Group's credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's.

Financial assets are graded according to current 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 speculative grade. Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty and the type of exposure concerned.

The Company has not been exposed to significant concentrations of credit risk to third parties due to the nature of trading activity undertaken and the size of individual balances. All trade and other receivables are non-rated (2017: non-rated).

The Company is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the periods reported on were held with institutions who are A rated. The Company's largest cash and cash equivalent counterparty is Morgan Stanley (2017: Morgan Stanley). At 31 December 2018 the balance held at this counterparty was £2,190 thousand (2017: £2,180 thousand).

18 Risk management (continued)

(a) Treasury policy (continued)

(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements. The Company does not have any obligations for which liquidity risk would be significant.

(iv) General insurance risk

The Company considers insurance risk within its general insurance activity to comprise the following:

- inaccurate pricing and selection of risks when underwritten;
- fluctuations in the timing, frequency and severity of claims and claims settlements, relative to expectations;
- unexpected claims arising from a single source;
- inadequate reinsurance protection or other risk transfer techniques; and
- inadequate reserves.

The majority of the insurance business underwritten by the Company is of a short-tail nature such as roadside assistance, and is managed and priced in the same country as the domicile of the customer, predominantly in the UK.

Risk based capital models are being used to support the quantification of risk under the Individual Capital Assessment ("ICA") framework. RAC undertakes regular reviews of insurance risks, the output from which is a key input into the ICA and risk based capital assessments.

General insurance claims liabilities are estimated by extrapolating the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. Due to the short tail nature of the majority of the insurance business underwritten, the risk of significant variances due to claims development is reduced.

(b) Strategic and operational risk

The strategy (including operational risks) for the Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the Financial Statements of that company.

18 Risk Management (continued)

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In managing its capital, the Group seeks to:
(i) match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;
(ii) maintain financial strength to support new business growth and satisfy the requirements of its members and regulators;
(iii) retain financial flexibility by maintaining strong liquidity; and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

(d) Regulatory risk

As a regulated entity, the Company is required to hold sufficient capital to meet acceptable solvency levels based on applicable FCA and PRA regulations. The Company's ability to transfer retained earnings to its shareholders is therefore restricted to the extent that these earnings form part of UK regulatory capital.

Relevant capital and solvency regulations ("Solvency II") continue to be used to measure and report the financial strength of regulated companies within the Company. The regulatory capital tests verify that an adequate excess of solvency capital above the required minimum level calculated is maintained using a series of prudent assumptions about the type of business that is underwritten. Regulatory requirements have been complied with throughout all periods reported. RAC Insurance Limited transitioned to comply with the Solvency II requirements from 1 January 2016.

The Company is also subject to regulatory requirements, as set out by the FCA, in relation to product design, marketing materials, sales processes and data protection. Failure to comply with these requirements could result in the Company having to suspend, either temporarily or permanently, certain activities. To mitigate these risks the Company employs regulatory and compliance specialists to ensure the regulatory and legislative requirements are fully understood and adhered to.

(e) Sensitivity testing

The results of sensitivity testing are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Gross loss ratios	The impact of an increase in gross loss ratios by 5%.
Expenses	The impact of an increase in expenses by 10%.
Interest rate and investment return	The impact of a 1% increase or decrease in market interest rates (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% or 6%). The test allows consistency for similar changes to investment returns and movements in the market value of fixed interest securities.

RAC Insurance Limited

Notes to the Financial Statements (continued)

18 Risk management (continued)

(e) Sensitivity testing (continued)

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. The impact of the expense sensitivity on profit also includes any increase in ongoing administration expenses in addition to the increase in the loss adjustment expense provision.

The sensitivity factors are applied, with the following pre-tax impacts on profit and shareholder's equity at 31 December 2018 and 31 December 2017.

	Increase/(decrease) in shareholder's equity (£000)		Increase/(decrease) in profit before tax (£000)	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	2018 £000	2018 £000	2018 £000	2018 £000
Gross loss ratios + 5%	(560)	(530)	(691)	(654)
Expenses +10%	(174)	(174)	(215)	(215)
Interest rates +1%	81	81	100	100
Interest rates -1%	(52)	(52)	(64)	(64)

	Increase/(decrease) in shareholder's equity (£000)		Increase/(decrease) in profit before tax (£000)	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	2017 £000	2017 £000	2017 £000	2017 £000
Gross loss ratios + 5%	(535)	(535)	(663)	(654)
Expenses +10%	(194)	(194)	(240)	(240)
Interest rates +1%	98	98	121	121
Interest rates -1%	(19)	(19)	(24)	(24)

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is 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.

The Directors have also considered the impact of the uncertainty on the Company's key financial balances. The Company has no investments outside of the UK and the cash and cash equivalents balance is not materially impacted by changes in interest rates which could be impacted by Brexit uncertainty. The Directors therefore do not consider that this risk will have a material impact on the key financial balances of the Company.

RAC Insurance Limited

Notes to the Financial Statements (continued)

19 Related party transactions

(a) The Company had the following transactions with related parties in 2018 and 2017:

(i) The Company has entered into agreements with RAC Motoring Services, a fellow Group company, where income, claims costs and other expenses for certain products are initially recorded by RAC Motoring Services on behalf of the Company, and then transferred to the Company through intercompany accounts. The net value of these transfers was £4,112 thousand of net costs in the year (2017: £4,180 thousand).

(ii) The Company had the following amounts due from related parties:

	2018 £000	2017 £000
Other Group companies- current accounts	9,724	8,227

The related party receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

(iii) The Company had the following amounts due to related parties:

	2018 £000	2017 £000
Other Group companies- current accounts	2,125	-

(iv) Auditor's remuneration of £36 thousand (2017: £33 thousand) is borne by RAC Motoring Services, a fellow Group company.

(v) Taxation of £508 thousand (2017: £501 thousand) has been settled by group relief with other Group companies.

(b) Key management compensation

The Directors and key management that are compensated by the Company are considered to be the same as for RAC Bidco Limited. Information on key management compensation may be found in the Consolidated Annual Report and Financial Statements of RAC Bidco Limited.

(c) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2018 or 31 December 2017.

At no time during the reported periods did any Director hold a material interest in any contract of significance with any Group company other than an indemnity provision between each Director and a Group company and a service contract between each Director and a Group company.

19 Related party transactions (continued)

(d) Property transaction

During 2013, the Company acquired a property with a market value of £3,000 thousand from RAC Motoring Services for cash consideration of £3,000 thousand. Following acquisition, the Company leased the property back to RAC Motoring Services. The value of rent was £435 thousand in 2018 (2017: £393 thousand). The property is classified as an investment property at fair value in its Statement of financial position. In accordance with IFRS 16 the property has also been recognised as a Right of use asset within RAC Motoring Services.

(e) Immediate Parent Company

The Company's immediate Parent Company is RAC Group Limited, registered in England and Wales.

(f) Ultimate controlling entity

The ultimate controlling entity is RAC Group (Holdings) Limited. Its Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW (Registered Office)

The lowest level at which consolidated Financial Statements are prepared is RAC Bidco Limited, registered office is the same as for RAC Group (Holdings) Limited.

The highest level at which consolidated Financial Statements are prepared is RAC Group (Holdings) Limited.