

Registered in England and Wales: No. 02355834

**RAC INSURANCE LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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# **RAC Insurance Limited**

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# **RAC Insurance Limited**

## **Company information**

### **Directors:**

P Gale  
D Hobday  
R Templeman  
M Wood

### **Auditor:**

Deloitte LLP  
Statutory Auditor  
Four Brindleyplace  
Birmingham  
United Kingdom  
B1 2HZ

### **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 for the year ended 31 December 2017 included RAC Group (Holdings) Limited and its subsidiaries, RAC Midco Limited, RAC Finance Limited, RAC Finance Group Limited, RAC Finance (Holdings) Limited, RAC Midco II Limited, Nebula Systems Limited, Maverick Technology (UK) Limited, RAC Bidco Limited, RAC Bond Co PLC, RAC Limited, RAC Motoring Services (Holdings) Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Brand Enterprises LLP, Net Cars Limited and Risk Telematics UK Limited.

These Financial Statements are presented for the year ended 31 December 2017. Comparatives are presented for the year ended 31 December 2016.

# **RAC Insurance Limited**

## **Strategic report**

**For the year ended 31 December 2017**

### **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 both at the end of the financial year and at the current time. 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 (see note 18(f)).

### **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.

	<b>2017</b>	<b>2016</b>
Increase in net written premiums	6%	8%
Combined operating ratio	83%	85%
Net incurred claims ratio	65%	66%
Net written expenses ratio	18%	19%

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 is the total of the net incurred claims ratio and the net written expenses ratio.

# **RAC Insurance Limited**

## **Strategic report (continued)**

**For the year ended 31 December 2017**

### **Financial review**

The financial position of the Company at 31 December 2017 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 £644 thousand to £2,600 thousand (2016: £1,956 thousand). This was primarily driven by a £776 thousand increase in net earned premiums, a £298 thousand reduction in the claims provision and a decrease in other charges of £190 thousand; this was offset by growth in claims paid net of reinsurance of £583 thousand.

The increase in net earned premiums was driven by strong 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 the 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 17 to the Financial Statements.

### **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.

### **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 3.0 throughout the year.

# **RAC Insurance Limited**

## **Strategic report (continued)**

**For the year ended 31 December 2017**

### **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.

By order of the Board on 3 May 2018

A handwritten signature in black ink, appearing to be 'D Hobday', written over a series of horizontal lines.

D Hobday  
Director

# **RAC Insurance Limited**

## **Directors' report**

**For the year ended 31 December 2017**

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 2017.

### **Directors**

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

Those in office during the year have been as follows:

R Fairman (resigned 27 February 2018)

P Gale

D Hobday (appointed 2 March 2017)

R Templeman

M Wood

C Woodhouse (resigned 2 March 2017)

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.

### **Dividends**

No interim dividends were paid during the year (2016: Nil) and the Directors do not recommend payment of a final dividend (2016: Nil). The PRA has communicated that any future dividends payable by the Company will require a non-objection statement from the PRA following assessment of the impact that the proposed dividend would have on the capital of the Company.

### **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 2017**

### **Going concern**

The Directors have assessed the financial position and the future funding requirements of the Company and compared them to the level of available committed borrowing facilities. Details of cash facilities are set out in note 10 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 17 to the Financial Statements.

The Directors' 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 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 page 2. The Directors also consider what mitigating actions the Group could take to limit any adverse consequences.

The Company has net assets of £15,875 thousand (2016: £13,777 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 2017 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 and so determine that it is appropriate for the Company's Financial Statements to be prepared on a going concern basis.

### **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.



# **RAC Insurance Limited**

## **Directors' report (continued)**

**For the year ended 31 December 2017**

### **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 2017.

By order of the Board on 3 May 2018



D Hobday  
Director

# **RAC Insurance Limited**

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

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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 18.

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**

<b>Key audit matters</b>	The key audit matter that we identified in the current year was outstanding claims provisions.
<b>Materiality</b>	The materiality that we used in the current year was £260k which was determined on the basis of 2.0% of revenue.
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement 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

- 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

### 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	<p>Gross provisions for outstanding claims at 31 December 2017 are £738k (2016: £1,037k). Provisions for outstanding claims are the largest single area of judgement within the Company's financial statements. Significant management judgement is required to determine an appropriate methodology to best reflect the nature of the Company's claims payable. Significant management estimate is also required for variables such as the expected length of time between incurred event and claims payment, and the number and quantum of claims expected to be paid in future years. These estimates are based on historical claims data from previous years.</p> <p>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.</p> <p>Further details are included in the critical accounting judgements and key sources of estimation uncertainty section within accounting policies on page 25 and note 12 to the financial statements.</p>

## 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	<p>We have assessed the design and implementation of the key internal controls which govern the setting of the methodology and estimates for outstanding claims reserves.</p> <p>In order to assess the completeness and valuation of the incurred but not yet reported ("IBNR") provision, we have developed an independent possible range in which we find it reasonable for the IBNR provision to be situated within. The parameters in developing this range were based on the Company's historical claims experience from previous years.</p> <p>We have also carried out tests of details on a sample of specific claims provided for, and have verified the validity of each sample to underlying supporting evidence such as most recent communication with those involved with the claim, and review of the provision calculation.</p>
Key observations	<p>We found that the balance calculated by management was situated near the mid-point of our range.</p> <p>Overall the outstanding claims provision balance at year-end is appropriate and reasonable for the Company.</p>

#### 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	£260k
Basis for determining materiality	2.0% of revenue
Rationale for the benchmark applied	We determined this benchmark to be appropriate as it is the main indicator of the level of activity which is taking place in the Company.

We have reported to the Audit Committee of RAC Group (Holdings) Limited, the ultimate Parent company, all audit differences in excess of £13k, 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

# **RAC Insurance Limited**

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

### **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.

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.

# **RAC Insurance Limited**

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **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.

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

#### **Matters on which we are required to report by exception**

##### *Adequacy of explanations received and accounting records*

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

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

**We have nothing to report in respect of these matters.**

# 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 (continued)

#### *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 this matter.

#### Other matters

##### *Auditor tenure*

Following the recommendation of the Audit Committee of RAC Group (Holdings) Limited, we were appointed by the Board of Directors 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 four years, covering the years ending 31 December 2014 to 31 December 2017.

##### *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).



Andrew Halls FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Birmingham, UK

# RAC Insurance Limited

## Financial Statements 2017

### Income statement

For the year ended 31 December 2017

	Note	2017	2016
		£000	£000
<b>Income</b>	1		
Gross written premiums		13,538	12,732
Premiums ceded to reinsurers		(535)	(475)
Premiums written, net of reinsurance		13,003	12,257
Net change in provision for unearned premiums		(202)	(232)
Net earned premiums		12,801	12,025
Other operating income		393	393
Net investment income		24	42
		<b>13,218</b>	<b>12,460</b>
<b>Expenses</b>	2		
Claims paid, net of reinsurance		(8,604)	(8,021)
Change in claims provisions, net of reinsurance		298	86
Other operating expenses		(2,312)	(2,379)
Other charges, including value adjustments	7	-	(190)
		<b>(10,618)</b>	<b>(10,504)</b>
<b>Profit before tax</b>		<b>2,600</b>	<b>1,956</b>
Tax charge	6	(502)	(430)
<b>Profit for the year</b>		<b>2,098</b>	<b>1,526</b>

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



**RAC Insurance Limited**  
**Financial Statements 2017 (continued)**  
**Statement of comprehensive income**  
**For the year ended 31 December 2017**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>£000</b>	<b>£000</b>
Profit for the year		2,098	1,526
<i>Other comprehensive expense not to be reclassified to profit or loss in subsequent years:</i>			
Loss on property revaluation	7	-	(200)
Net other comprehensive expense not to be reclassified to profit or loss in subsequent years		-	(200)
Other comprehensive expense, net of tax		-	(200)
<b>Total comprehensive income for the year</b>		<b>2,098</b>	<b>1,326</b>

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

# RAC Insurance Limited

## Financial Statements 2017 (continued)

Registered in England and Wales: No. 02355834

### Statement of financial position

As at 31 December 2017

	Note	2017 £000	2016 £000
<b>ASSETS</b>			
Property	7	2,810	2,810
Reinsurance assets	8	308	238
Receivables	9	8,249	6,179
Cash and cash equivalents	10	12,130	12,108
		<b>23,497</b>	<b>21,335</b>
<b>LIABILITIES</b>			
Insurance liabilities	12(a)	(7,531)	(7,558)
Other payables	11	(91)	-
		<b>(7,622)</b>	<b>(7,558)</b>
<b>Net assets</b>		<b>15,875</b>	<b>13,777</b>
<b>EQUITY</b>			
Ordinary share capital	14	7,250	7,250
Revaluation reserve		-	-
Retained earnings		8,625	6,527
<b>Total equity</b>		<b>15,875</b>	<b>13,777</b>

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

Approved by the Board on 3 May 2018



D Hobday  
Director

**RAC Insurance Limited**  
**Financial Statements 2017 (continued)**  
**Statement of changes in equity**

**For the year ended 31 December 2017**

	Note	Ordinary share capital	Revaluation reserve	Retained earnings	Total equity
		£000	£000	£000	£000
<b>Balance at 1 January 2016</b>		<b>7,250</b>	<b>200</b>	<b>5,001</b>	<b>12,451</b>
Profit for the year		-	-	1,526	1,526
Other comprehensive expense for the year	7	-	(200)	-	(200)
Total comprehensive (expense) / income		-	(200)	1,526	1,326
<b>Balance at 31 December 2016</b>		<b>7,250</b>	<b>-</b>	<b>6,527</b>	<b>13,777</b>
Profit for the year		-	-	2,098	2,098
Other comprehensive income for the year		-	-	-	-
Total comprehensive income		-	-	2,098	2,098
<b>Balance at 31 December 2017</b>		<b>7,250</b>	<b>-</b>	<b>8,625</b>	<b>15,875</b>

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

**RAC Insurance Limited**  
**Financial Statements 2017 (continued)**  
**Statement of cash flows**

**For the year ended 31 December 2017**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>£000</b>	<b>£000</b>
<b>Operating activities</b>			
Profit before tax		2,600	1,956
Adjustments to reconcile profit before tax to net cash flows:			
Impairment of tangible assets (non-cash)	7	-	190
Increase in reinsurance assets (non-cash)	8(c)	(70)	(48)
Increase in receivables (non-cash)	9	(2,070)	(1,821)
Increase in insurance liabilities (non-cash)	12(a)	(27)	194
Decrease in payables and other financial liabilities		(411)	(430)
<b>Net cash inflow from operating activities</b>		<b>22</b>	<b>41</b>
<b>Net increase in cash and cash equivalents</b>		<b>22</b>	<b>41</b>
Cash and cash equivalents at 1 January	10	12,108	12,067
<b>Cash and cash equivalents at 31 December</b>	<b>10</b>	<b>12,130</b>	<b>12,108</b>

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 limited liability company, incorporated and domiciled in the United Kingdom. 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 18.

The Financial Statements of RAC Insurance Limited for the year ended 31 December 2017 were approved for issue by the Board on 27 February 2018.

### **(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").

### **Going concern**

The Directors have assessed the financial position and the future funding requirements of the Company and compared them to the level of available committed borrowing facilities. Details of cash and cash equivalents are set out in note 10 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 17 to the Financial Statements.

The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements 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 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 page 2. The Directors also consider what mitigating actions the Group could take to limit any adverse consequences.

The Company has net assets of £15,875 thousand (2016: £13,777 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 2017 Annual Report and Financial Statements.

# **RAC Insurance Limited**

## **Accounting policies (continued)**

### **(B) Basis of preparation (continued)**

#### **Going concern (continued)**

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 and so determine that it is appropriate for the 2017 Company Financial Statements to be prepared on a going concern basis.

### **(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**

Other operating income consists of rental income from operating leases and is recognised on a straight line basis over the term of the relevant lease.

### **(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.

### **(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.

# **RAC Insurance Limited**

## **Accounting policies (continued)**

### **(G) Insurance contract liabilities (continued)**

#### **Claims (continued)**

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 12(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 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 general business 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.

#### **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 liabilities" in the Statement of financial position.

### **(H) Reinsurance**

The Company cedes reinsurance in the normal course of business. 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) Property**

Owner-occupied properties are carried at their revalued amounts, being the fair value at the date of revaluation, which are supported by market evidence, and movements are taken to a separate reserve within equity. A revaluation deficit is recognised in the Income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Third party valuations are obtained every three years to support management's internal valuations, carried out on an annual basis.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment 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.



# **RAC Insurance Limited**

## **Accounting policies (continued)**

### **(L) 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.

### **(M) 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)**

### **(N) Application of new and revised International Financial Reporting Standards**

The following new and amended IFRSs are effective for the 2017 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.

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Un-realised Losses
- Amendments to IAS 7 Disclosure Initiative
- Annual Improvements to IFRSs 2014 – 2016 Cycle

At 31 December 2017, 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:

- IFRS 9 Financial Instruments <sup>1</sup>
- IFRS 15 Revenue from contracts with customers <sup>1</sup>
- IFRS 16 Leases <sup>2</sup>
- IFRS 17 Insurance contracts <sup>3</sup>
- IFRIC 22 Foreign currency transactions and advance consideration <sup>1</sup>
- IFRIC 23 Uncertainty over income tax treatments <sup>2</sup>

1 Effective for annual periods commencing on or after 1 January 2018

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

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

The Group is currently in the process of evaluating the impact of the adoption of IFRS 16 'Leases' and IFRS 17 'Insurance contracts' on the Group'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.

IFRS 15 Revenue from contracts with customers comes into force for accounting periods commencing on or after 1 January 2018. The Group has conducted a full review of all revenue streams across its operating segments in order to establish the impact of the revised accounting standard on the Group's revenue. Following this review, the Directors have concluded that there will be no material impact on the Group's revenue for the year ended 31 December 2018 and the comparative information for the year ended 31 December 2017 presented in these Financial Statements. The Company accounts for revenue under IFRS 4 and therefore the impact of IFRS 15 is not applicable.

IFRS 9 'Financial Instruments' also comes into force for accounting periods commencing on or after 1 January 2018. The Directors have reviewed the impact of this standard and concluded that there will be no material impact on the Financial Statements for the year ended 31 December 2018 and the comparative information for the year ended 31 December 2017.

# **RAC Insurance Limited**

## **Accounting policies (continued)**

### **(0) Critical accounting judgements and key sources of estimation uncertainty (continued)**

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.

#### **(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 outstanding claims provision**

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 12 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

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
<b>Premiums earned</b>		
Gross written premiums	13,538	12,732
Less: Premiums ceded to reinsurers	(535)	(475)
Gross change in provision for unearned premiums	(272)	(280)
Reinsurers' share of change in provision for unearned premiums	70	48
Net change in provision for unearned premiums	(202)	(232)
Net earned premiums	12,801	12,025
 Other operating income	 393	 393
Total revenue	13,194	12,418
Net investment income	24	42
<b>Total income</b>	<b>13,218</b>	<b>12,460</b>

### 2 Expenses

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
<b>Claims paid, net of reinsurance</b>		
Claims paid to policyholders	8,751	8,437
Less: Claims recoveries from reinsurers	(147)	(416)
	8,604	8,021
 <b>Change in claims provisions, net of reinsurance</b>		
Change in net claims provisions	(298)	(86)
	8,306	7,935
 <b>Fee and commission expenses</b>		
Other operating expenses	2,312	2,379
 <b>Value adjustments</b>		
Other charges	-	190
<b>Total expenses</b>	<b>10,618</b>	<b>10,504</b>

# 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 Group (Holdings) Limited.

### 4 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.

### 5 Auditor's remuneration

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

	<u>2017</u> £000	<u>2016</u> £000
<b>Audit services</b>		
Statutory audit of the Company's Financial Statements	<u>13</u>	<u>7</u>
<b>Other services</b>		
Audit related assurance services	<u>20</u>	<u>20</u>
<b>Total remuneration payable to Deloitte LLP</b>	<u>33</u>	<u>27</u>

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

### 6 Tax

<b>(a) Tax charged to the income statement</b>	<u>2017</u> £000	<u>2016</u> £000
<b>Current tax:</b>		
For the year	501	430
Adjustment in respect of prior years	1	-
Total current tax	<u>502</u>	<u>430</u>
<b>Total tax charged to the income statement</b>	<u>502</u>	<u>430</u>

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 6 Tax (continued)

#### (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:

	2017	2016
	£000	£000
Profit before tax	2,600	1,956
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20.00%)	501	391
Non deductible expenses	-	39
Adjustment to tax charge in respect of previous periods - corporation tax	1	-
<b>Total tax charged to the income statement (note 6(a))</b>	<b>502</b>	<b>430</b>

The headline rate of UK corporation tax reduced from 20% to 19% on 1 April 2017, and will reduce further to 17% from 1 April 2020.

The Company has unrecognised unrealised capital losses of £7,858 thousand (2016: £7,858 thousand) to carry forward indefinitely. On realisation these could be set against future capital gains.

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 7 Property

	<b>Property</b>
	<b>£000</b>
<b>Cost and valuation:</b>	
At 1 January 2016	3,200
Downward revaluation recognised in other comprehensive income	(200)
Impairment recognised in Income statement	(190)
<b>At 31 December 2016</b>	<b>2,810</b>
Impairment recognised in Income statement	-
<b>At 31 December 2017</b>	<b>2,810</b>

In line with the Company's accounting policy, the owner-occupied property was revalued during 2015 by Colliers International, an accredited independent valuer. On 31 December 2016, Commercial Real Estate Services performed a high level valuation of the property following a tenant vacating. A decision was taken by management to reduce the value of the property in line with this valuation. As at 31 December 2017 management do not consider there to have been a material change in the value of the property. If the owner-occupied property was measured using the cost model, the carrying amount would be £3,000 thousand.

### 8 Reinsurance assets

#### (a) Carrying amount

Gross reinsurance assets at 31 December comprise:

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Provision for unearned premiums	308	238

#### (b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in note 12(c).

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

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 8 Reinsurance assets (continued)

#### (c) Movements

Reinsurers' share of the provision for unearned premiums:

	2017	2016
	£000	£000
<b>Carrying amount at 1 January</b>	<b>238</b>	<b>190</b>
Premiums ceded to reinsurers in the year	535	475
Less: reinsurers' share of premiums earned during the year	(465)	(427)
Change in reinsurance asset	70	48
<b>Carrying amount at 31 December</b>	<b>308</b>	<b>238</b>

### 9 Receivables

	2017	2016
	£000	£000
Amounts due from reinsurers	9	13
Amounts due from intermediaries - related parties (note 18 (a)(iii))	8,227	6,152
Other receivables	13	14
<b>Total</b>	<b>8,249</b>	<b>6,179</b>
<b>Expected to be recovered in less than one year</b>	<b>8,249</b>	<b>6,179</b>

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.

### 10 Cash and cash equivalents

Cash and cash equivalents at 31 December 2017 comprises of £12,130 thousand of cash at bank and in hand (2016: £12,108 thousand).

### 11 Other payables

	2017	2016
	£000	£000
Other payables	91	-
<b>Total</b>	<b>91</b>	<b>-</b>

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



# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 12 Insurance liabilities

#### (a) Carrying amount

Gross insurance liabilities at 31 December comprise:

	2017	2016
	£000	£000
Provisions for outstanding claims (see note 12(b))	738	1,037
Provision for unearned premiums (see note 12(f))	6,793	6,521
<b>Total</b>	<b>7,531</b>	<b>7,558</b>

#### (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 provisions are based on undiscounted estimates of future claims payments.

Outstanding claims includes a provision of £30 thousand (2016: £60 thousand) for "After The Event" insurance cover. The Company stopped writing new "After The Event" business in 2008.

RACIL 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)

### 12 Insurance liabilities (continued)

#### (d) Movements

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

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
<b>Carrying amount at 1 January</b>	<b>1,037</b>	<b>1,123</b>
Claims losses and expenses incurred in the current year	8,966	8,676
Claims losses and expenses incurred in prior years	(335)	(325)
Inurred claims losses and expenses	8,631	8,351
Less:		
Payments made on claims incurred in the current year	(8,873)	(8,435)
Payments made on claims incurred in prior years	(57)	(2)
Claims payments made in the year	(8,930)	(8,437)
<b>Carrying amount at 31 December</b>	<b>738</b>	<b>1,037</b>

#### (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 2017. 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 2008, by the end of 2017, £12,317 thousand had actually been paid in settlement of gross claims.

In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £12,734 thousand had decreased to £12,347 thousand by 31 December 2017. 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.

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 12 Insurance liabilities (continued)

#### (a) Loss development tables (continued)

Accident year	All Prior Years £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
<b>Gross cumulative claims payments</b>												
At end of accident year		(11,246)	(9,624)	(8,446)	(7,580)	(7,372)	(7,157)	(6,830)	(7,336)	(8,435)	(8,873)	
One year later		(12,234)	(9,889)	(8,622)	(7,688)	(7,536)	(7,212)	(6,888)	(7,337)	(8,492)		
Two years later		(12,293)	(9,889)	(8,622)	(7,774)	(7,536)	(7,212)	(6,888)				
Three years later		(12,317)	(9,889)	(8,656)	(7,797)	(7,536)	(7,212)	(6,888)				
Four years later		(12,317)	(9,889)	(8,656)	(7,797)	(7,536)	(7,212)					
Five years later		(12,317)	(9,889)	(8,656)	(7,797)	(7,536)						
Six years later		(12,317)	(9,889)	(8,656)	(7,797)							
Seven years later		(12,317)	(9,889)	(8,656)								
Eight years later		(12,317)	(9,889)									
Nine years later		(12,317)										
<b>Estimate of gross ultimate claims</b>												
At end of accident year		12,734	9,889	8,622	7,853	7,978	7,212	7,031	7,451	8,676	8,966	
One year later		12,828	9,889	8,788	7,944	7,978	7,214	7,028	7,341	8,495		
Two years later		12,612	10,054	8,722	7,944	7,963	7,214	7,036	7,350			
Three years later		12,691	9,889	8,722	7,948	7,963	7,212	6,938				
Four years later		12,476	9,889	8,722	7,948	7,930	7,212					
Five years later		12,476	9,889	8,722	7,921	7,905						
Six years later		12,476	9,889	8,722	7,911							
Seven years later		12,476	9,889	8,722								
Eight years later		12,377	9,889									
Nine years later		12,347										
<b>Estimate of ultimate claims</b>		<b>12,347</b>	<b>9,889</b>	<b>8,722</b>	<b>7,911</b>	<b>7,905</b>	<b>7,212</b>	<b>6,938</b>	<b>7,350</b>	<b>8,495</b>	<b>8,966</b>	
<b>Cumulative payments</b>		<b>(12,317)</b>	<b>(9,889)</b>	<b>(8,656)</b>	<b>(7,797)</b>	<b>(7,536)</b>	<b>(7,212)</b>	<b>(6,888)</b>	<b>(7,337)</b>	<b>(8,492)</b>	<b>(8,873)</b>	
<b>Outstanding claims provisions recognised in the Statement of financial position</b>		<b>30</b>	<b>-</b>	<b>66</b>	<b>114</b>	<b>369</b>	<b>-</b>	<b>50</b>	<b>13</b>	<b>3</b>	<b>93</b>	<b>738</b>

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 12 Insurance liabilities (continued)

#### (e) Loss development tables (continued)

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

Accident year	All prior years £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
<b>Net cumulative claims payments</b>												
At end of accident year		(10,015)	(8,778)	(7,672)	(7,024)	(6,815)	(7,043)	(6,713)	(6,949)	(8,019)	(8,547)	
One year later		(11,003)	(9,043)	(7,848)	(7,132)	(6,979)	(7,098)	(6,771)	(6,950)	(8,076)		
Two years later		(11,062)	(9,043)	(7,848)	(7,218)	(6,979)	(7,098)	(6,771)	(6,950)			
Three years later		(11,086)	(9,043)	(7,882)	(7,241)	(6,979)	(7,098)	(6,771)				
Four years later		(11,086)	(9,043)	(7,882)	(7,241)	(6,979)	(7,098)					
Five years later		(11,086)	(9,043)	(7,882)	(7,241)	(6,979)						
Six years later		(11,086)	(9,043)	(7,882)	(7,241)							
Seven years later		(11,086)	(9,043)	(7,882)	(7,241)							
Eight years later		(11,086)	(9,043)									
Nine years later		(11,086)										
<b>Estimate of net ultimate claims</b>												
At end of accident year		11,503	9,043	7,848	7,297	7,421	7,098	6,914	7,064	8,260	8,640	
One year later		11,597	9,043	8,014	7,388	7,421	7,100	6,911	6,954	8,079		
Two years later		11,381	9,208	7,948	7,388	7,406	7,100	6,919	6,963			
Three years later		11,460	9,043	7,948	7,392	7,406	7,098	6,821				
Four years later		11,245	9,043	7,948	7,392	7,373						
Five years later		11,245	9,043	7,948	7,365	7,348						
Six years later		11,245	9,043	7,948	7,355							
Seven years later		11,245	9,043									
Eight years later		11,146	9,043									
Nine years later		11,116										
<b>Estimate of ultimate claims</b>		11,116	9,043	7,948	7,355	7,348	7,098	6,821	6,963	8,079	8,640	
<b>Cumulative payments</b>		(11,086)	(9,043)	(7,882)	(7,241)	(6,979)	(7,098)	(6,771)	(6,950)	(8,076)	(8,547)	
<b>Net outstanding claims provisions recognised in the Statement of financial position</b>		30		66	114	369		50	13	3	93	738

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 12 Insurance liabilities (continued)

#### (f) Provision for unearned premiums

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

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Carrying amount at 1 January</b>	<b>6,521</b>	<b>6,241</b>
Premiums written during the year	13,538	12,732
Less: premiums earned during the year	(13,266)	(12,452)
Change in year	272	280
<b>Carrying amount at 31 December</b>	<b>6,793</b>	<b>6,521</b>

### 13 Tax liabilities

All current tax liabilities have been settled via group relief as at 31 December 2017 and 31 December 2016. See the statement of cash flows and related party transactions (note 18(a)(ii)).

### 14 Ordinary share capital

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

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Allotted, called up and fully paid</b>		
7,250,000 (2016: 7,250,000) ordinary shares of £1 each	7,250	7,250

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 15 Contingent liabilities and other risk factors

#### Uncertainty over claims provisions

Note 12(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.

#### 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.

### 16 Operating lease arrangements

Future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Within 1 year	422	562
Later than 1 year and not later than 5 years	-	422
Later than 5 years	-	-
	<b>422</b>	<b>984</b>

Operating lease arrangements arise in respect of a property lease. The Company acts as a lessor for one property and the lessee is RAC Motoring Services, a fellow Group Company.

### 17 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.

# **RAC Insurance Limited**

## **Notes to the Financial Statements (continued)**

### **17 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 rate.

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.

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 17 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:

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
Trade and other receivables	8,249	6,179
Cash and cash equivalents	12,130	12,108
	<u>20,379</u>	<u>18,287</u>

Management of credit risk is carried out in accordance with 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 generally 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 (2016: 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 (2016: Morgan Stanley). At 31 December 2017 the balance held at this counterparty was £2,180 thousand (2016: £2,165 thousand).



# **RAC Insurance Limited**

## **Notes to the Financial Statements (continued)**

### **17 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.

Liquidity 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.

##### **(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.

# **RAC Insurance Limited**

## **Notes to the Financial Statements (continued)**

### **17 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.

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. RAC Insurance Limited transitioned to comply with the Solvency II requirements from 1 January 2016.

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 17 Risk management (continued)

#### (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.

<b>Sensitivity factor</b>	<b>Description of sensitivity factor applied</b>
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.

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

	<b>Increase/(decrease) in shareholder's equity (£000)</b>		<b>Increase/(decrease) in profit before tax (£000)</b>	
	<b>Gross of reinsurance £000</b>	<b>Net of reinsurance £000</b>	<b>Gross of reinsurance £000</b>	<b>Net of reinsurance £000</b>
Gross loss ratios + 5%	(535)	(535)	(663)	(663)
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.

# RAC Insurance Limited

## Notes to the Financial Statements (continued)

### 18 Related party transactions

#### (a) The Company had the following transactions with related parties in 2017 and 2016:

- (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 £4,180 thousand of net costs in the year (2016: £3,782 thousand).

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

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
Other Group companies- current accounts	8,227	6,152

The related parties' 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 £nil due to related parties (2016: £nil).

- (iv) Auditor's remuneration of £33 thousand (2016: £27 thousand) is borne by RAC Motoring Services, a fellow Group company.

#### (b) Key management compensation

The Directors and key management of 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 2017 or 31 December 2016.

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.

#### (d) Property transaction

During 2013, the Company acquired a property with a market value of £3 million from RAC Motoring Services for cash consideration of £3 million. Following acquisition, the Company leased the property back to RAC Motoring Services. The value of rent was £393 thousand in 2017 (2016: £393 thousand). The risks and rewards of ownership lie with the Company and therefore it has recognised the asset at fair value in its Statement of financial position in accordance with IAS 17 Leases.

#### (e) Immediate Parent Company

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

# **RAC Insurance Limited**

## **Notes to the Financial Statements (continued)**

### **18 Related party transactions (continued)**

#### **(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.

The lowest level at which consolidated Financial Statements are prepared is RAC Bidco Limited.

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