Hastings DIRECT

Hastings Insurance Services Limited

Annual Report

for the year ended 31 December 2019

Registered number: 03116518

Contents

Financial statements

Directors and other information

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Strategic Report

Principal Activity

The principal activity of Hastings Insurance Services Limited ('the Company' or 'HISL') is the provision of insurance broking services to the UK private car, van, motorbike and home markets. HISL is authorised and regulated in the UK by the Financial Conduct Authority ('FCA'). There have been no significant changes to the underlying activities of the Company during the year.

Performance

The Directors are pleased to report the results for the year. The Company provides straightforward insurance products which, together with its digital business model, agile approach and counter-fraud capabilities, continues to deliver profitable results.

Financial highlights

- **Revenue** remained broadly flat at £330.3m (2018: £331.6m)
- **Other expenses** increased by 14% to £237.3m (2018: £208.2m)
- **Adjusted operating profit**[1] decreased by 25% to £94.0m (2018: £124.7m)
- **Profit before tax** decreased by 33% to £78.3m (2018: £117.1m)

Revenue remained broadly flat at £330.3m (2018: £331.6m), with a reduction in commissions per customer partially offset by an increase in premium finance interest and growth in customer numbers. Other expenses increased by 14% to £237.3m mainly due to a one off VAT refund of £14.6m relating to prior periods. Underlying expenses, before the impact of the VAT refund, increased by 7%, due to investment in strategic initiatives and an increase in acquisition costs.

Profit before tax decreased by 33% to £78.3m (2018: £117.1m) as a result of the above and the additional amortisation of £7.8m on the next generation Guidewire platform. The Company paid dividends of £45.3m (2018: £61.7m), whilst maintaining at all times a significant excess over FCA minimum regulatory capital requirements.

Non-financial highlights

- **Sustained growth in live customer policies ('LCP')** to 2.85m, increasing 5.2% from 2.71m last year.
- **Growing share** of the UK private car insurance market to 7.7% as at 31 December 2019 (7.5% as at 31 December 2018).
- **Further growth in home to 209,000 policies,** a 27% increase year on year.
- **The Company's next generation anti-fraud platform** has been able to detect sophisticated types of policy and claims fraud through the use of social network analytics and new data point connections, with a 96% increase in the number of fraud cases identified during 2019.
- **Continued focus on the Company's digital investments and strategic initiatives** with 550,000 mobile app downloads since its launch, which has contributed towards an 18% reduction in customer service calls per LCP.
- **Continued drive to do business in the right way**; successfully achieving the 30% Club gender diversity target a year ahead of schedule, and continued progress on HISL's environmental, social and governance agenda.
- **HISL remains supportive of the ongoing FCA work on general insurance pricing practices.** HISL's agile business model, technology, and focus on price comparison website distribution should leave HISL well positioned to respond to the FCA's final recommendations.

The Company continues to invest in the development of enhanced anti-fraud capabilities and digital functionality, including delivering electronic claims notification, claims tracking and online self-serve functionality this year. This investment has already started to provide benefits and, as well as future operational efficiencies, enables HISL to strengthen its digital advantage and increase digital functionality for customers.

The Company actively encourages personal development by offering a range of development options to build the capabilities of its teams for the future and encourage the behaviours needed to deliver its business strategy. Through ongoing development, HISL is committed to developing the skills and careers of all of its colleagues and continually invests in its training and development programmes.

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[1] Adjusted operating profit represents profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs. This is a non-IFRS measure used by management to measure the underlying trading of the business and is provided for information.

The Company is committed to making sure that its workforce and senior leaders are representative of its customer base in terms of diversity. The Company signed up to the Women in Finance Charter supporting the progression of women into senior roles in the financial services sector by focusing on the executive pipeline and the mid-tier level. Currently 60% of HISL's Board members are women, and Hastings Group Holdings plc group ('the Hastings Group'), of which HISL is part, is also a signatory to the 30% Club, committing to having 30% female senior leaders in the Hastings Group by 2020. HISL achieved this a year ratio a year early, with 31% of senior leaders being female at 31 December 2019.

The Company undertakes a proactive role in helping local charities, making financial, professional and physical support available to the local community. HISL has continued to make various donations to support local causes and started the fifth year of the 'Be the Change' programme in Bexhill and Leicester which aims to raise the aspirations of local 13 – 14 year olds. The programme is designed to help remove barriers that make students disengage from school and in life by providing them with life skills to help shape their future. Colleagues volunteer as business mentors to help support the students with anecdotal and professional advice and guidance.

Key performance indicators

The Directors use Key Performance Indicators ('KPIs') to monitor the performance of the Company. The KPIs most relevant to the business are revenue, adjusted operating profit, profit before tax and live customer policy count.

	31 December 2019 £'m	31 December 2018 £'m
Revenue	330.3	331.6
Adjusted operating profit	94.0	124.7
Profit before tax	78.3	117.1
Live customer policies as at 31 December (million)	2.85	2.71

The Directors review performance on a regular basis and take appropriate remedial action for any underperformance. In addition, the Board continues to look for opportunities to maximise shareholder return, add value to the business and support continued growth.

Principal risks and uncertainties

The Directors' Report details the principal risks the Directors look to manage. These risks are also viewed as principal risks and uncertainties that the Company faces as part of its ongoing strategy as many of these risks are related to key business decisions that the Directors review and discuss on a regular basis:

- Financial risk;
- Strategic risk;
- Conduct risk;
- Data governance risk;
- Operational risk;
- Legal and regulation risk.

Further detail on how these risks are managed can be found in the financial risk management section of the Directors' Report.

COVID-19

The corona virus ('COVID-19') global pandemic is continuing to develop and is causing unprecedented disruption to the UK and worldwide economy and society. The Company is closely monitoring the situation and is following the advice of the UK Government. Although the full extent is as yet unknown, the pandemic is not expected to significantly impact the structure or demand for motor and home insurance products in the UK over the medium term. Motor insurance remains a compulsory product for cars to be driven in the UK and home insurance is a requirement for homeowners that have a mortgage on their property.

There is a risk to the wellbeing of the Company's colleagues and, therefore, the Company has introduced risk mitigation practices in line with the UK Government's requirements and guidance. Frontline colleagues who meet the FCA definition of providing 'essential services', or supporting those who do, and who need to be at their usual place of work in order to meet the needs of customers, are being supported through a number of activities, including increased cleaning across the Company's offices, limiting supplier visits to offices to essential maintenance suppliers only, restricting colleague travel between office locations, and social distancing measures between, for example, customer call centre operators. All other colleagues are remote working for the foreseeable future, where possible, and the Company is currently working to increase capacity to support home working for all colleagues.

The Company is making available extended sick pay and paid leave provisions for those that are self-isolating or may otherwise have been directly affected by the virus, and providing additional parental leave and flexible working, where possible, to assist with childcare given the school and nursery closures.

In addition to the support given to front-line colleagues, other measures are being taken to help ensure that the Company continues to provide the best possible service to its customers. These include enhanced communications with customers, encouraging customers to use online and digital facilities wherever possible and prioritising the needs of customers that need to make a claim and those existing customers that wish to renew their existing policies.

The financial stability of the Company is being assessed continually, with the counterparty risk associated with its cash and Money Market Funds ('MMF') being monitored closely. Cash deposits are with banks that are currently rated A and above, whilst MMF balances are with funds that are rated AAA or above.

The Hastings Group, of which the Company is part, remains strongly capitalised, with a relatively low risk investment portfolio, cash and MMF balances with strongly rated counterparties and arrangements with reinsurers that are strongly rated.

With the COVID-19 situation evolving rapidly, the Company is closely monitoring the latest Government briefings, the impact on colleagues, the needs of its customers and the wider financial environment. Working with the Hastings Group, a senior executive-led committee is overseeing developments, mitigating the impact of COVID-19 on all of the Company's stakeholders and reporting to Board on a regular basis.

Brexit risk

The UK Government has agreed a Brexit deal with the EU, with an exit date of 31 January 2020. Negotiations for new arrangements are underway during an implementation period, which is due to last until 31 December 2020. During the implementation period, EU law will continue to apply.

The FCA has stated that it will work hard to ensure that it, and the UK financial services sector, are prepared for the end of the implementation period. In this respect, it has said that it will continue to engage with the UK Government, other UK regulators, European supervisory authorities and national authorities in member states, together with all European policy makers, on shared issues and priorities. The Company has made preparations to ensure policyholders are able to produce proof of motor insurance, in the form of a 'green card', when driving in Europe if required following the end of the transition period.

The Company provides intermediary and other services to a Gibraltar-based insurance company, a fellow subsidiary of the Hastings Group. The UK Government has confirmed that it will preserve existing arrangements to allow Gibraltar insurers to underwrite business in the UK and will work closely with the Government of Gibraltar to design a replacement framework which will exist beyond the implementation period. Whilst considered of remote likelihood, the Board has considered contingency arrangements should financial services firms in Gibraltar no longer be able to access the UK market. The Company continues to assess and prepare for all eventualities as trade negotiations progress, and believes that, whatever the outcome, it will not have a material adverse impact on business operations, which are focused on the UK market.

The Company is working closely with regulators, Government agencies and industry bodies to better understand and prepare for the outcome of Brexit at the end of the transition period and minimise any potential disruption to its customers, operations, or achievement of future business plans. The Company continues to prepare itself for any necessary changes and aims to ensure that contingency plans contain an element of flexibility.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. Directors need to have regard, amongst other matters, to the:

- Likely consequences of any decisions in the long-term;
- Interests of the Company's employees;
- Need to foster the Company's business relationships with suppliers, customers and others;
- Impact of the Company's operations on the community and environment;
- Desirability of the Company maintaining a reputation for high standards of business conduct; and
- Need to act fairly as between members of the Company.

In discharging section 172 duties the Board of Directors ('the Board' 'the Directors') consider the factors set out above as well as other factors which they consider relevant to the decision being made, for example, the interests and views of regulators. The Directors seek to ensure that their decision-making process not only takes into account the Company's purpose, vision and values, together with its strategic priorities, but also reflects, as far as practical and possible, the interests of all stakeholders.

The purpose of the Strategic Report is to guide and inform the Company's members as to how the Directors have performed their duty under section 172, and stakeholders should read this in its entirety to fully understand how the Directors have discharged these duties.

As is normal for large companies, the Board delegates authority for day-to-day management of the Company to executives and engage management in setting, approving and overseeing execution of the business strategy and related policies. The Directors review and approve key health and safety, financial and operational performance, legal and regulatory compliance, and key risks at Board or Board Committee meetings. The Directors also review other areas over the course of the financial year including the Company's business strategy, colleague engagement, corporate responsibility, governance matters. Papers presented to the Board and its Committees, supported by relevant presentations by management, are prepared in a manner which enables the Board to review the impact of its decisions on the business and all key stakeholders where relevant and appropriate.

The Company's culture and values are based on its 4Cs ways of working: serve and invest in Colleagues, Company, Customers and Communities. The Directors use the 4Cs to identify the Company's key stakeholders and as a clear, consistent and balanced approach to measure the Company's performance and success from the perspective of all of its key stakeholders (colleagues, customers, suppliers, shareholders, regulators, and the communities in which the business operates).

Although not an exhaustive list, below are some practical examples of how the Directors have had regard to the matters specifically set out in section 172 when discharging those duties during 2019, and the effect of that on certain of the decisions taken by them.

Three Year Plan

The Board reviews and approves the Company's Three Year Plan annually, which includes its strategy, commercial and operational performance projections, capital and cash management plans and the sensitivities and assumptions applied. As part of the review and subsequent approval of the Three Year Plan, the Board considered the 4Cs context and the implications for all stakeholders over the short and medium term, including colleagues and their welfare, supply partners, customer outcomes and the wider community. During the year the Board received reports on business performance in context of the Three Year Plan reflecting commercial and operational matters; strategic initiatives and investment; Environment, Social, and Governance strategy; colleague welfare and engagement; diversity and inclusion; and internal control, risk management, and compliance matters.

Capital allocation – dividends

The Board seeks to distribute excess capital to shareholders, where such capital is surplus and not required for growth or to satisfy Company regulatory requirements. The Company routinely monitors and reviews its capital position. Every six months, at the financial half year and full year end, the Board reviews the Company's balance sheet and going concern status, taking into account the risks and sensitivities for future performance, the ongoing need for strategic investment in the Company, as well as the expectations of shareholders and any impact to other stakeholders; it then determines the appropriate level of dividend payment.

Commercial contracts

During the year, the Board considered and approved the engagement of new providers of motor repair and credit hire services. In accordance with the Board's terms of reference, in light of the significance and materiality of the new engagements, Board approval was required. Board presentations fully considered all risks, opportunities, and commercial and operational benefits and fully considered the perspective of all stakeholders. All material elements of the new contracts were reviewed and considered, including expected improvements to customer outcomes and service. A thorough and robust tender and procurement protocol was followed, taking into account the impacts on the incumbent and potential new suppliers, ensuring fairness and transparency in the decision-making process.

Customer outcomes

During the year the Directors considered matters that provided management with clearly defined expectations to ensure that the business continues to place the customer at the heart of the Company's operations. These covered:

- How the Company's customers should be treated, throughout their interactions with the Company;
- Ensuring customers are provided with clear price and product information
- Ensuring customers do not face unreasonable barriers post sale; and
- How the Company products and services are sold and marketed and that these products perform as a customer would expect.

These outcomes are aligned with the expectations of the Company's regulator, the FCA. They provide the basis on which the Directors track and monitor management's performance in relation to the fair treatment of the Company's current and potential customers.

Further information on how the Board and the Company take other stakeholders into consideration when making decisions can be found in the Directors' Report.

Going concern

After a full review of the Company's financial position, financial performance, cash flows and forecasts for the next 12 months, and after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the annual report and financial statements.

The Strategic Report has been approved by the Board of Directors and signed on its behalf by:

T van der Meer

Director

14 April 2020

Registered number: 03116518

Directors' Report

The Directors submit their report and the audited financial statements of Hastings Insurance Services Limited for the year ended 31 December 2019.

Directors

The Directors who served during the year, and up to the date of signing of this report, are listed below:

- T van der Meer	
- T J Money	Resigned 30 September 2019
- P Blanc	Non-Executive Chair
- S Sagayam	Non-Executive
- S A Amies-King	Non-Executive
- V M Dias	Non-Executive

As permitted by the Companies Act 2006, the Company has maintained insurance cover for Directors and officers against liabilities arising in relation to the Company.

Dividends

The Directors declared and paid dividends of £45.3m during the year (2018: £61.7m).

Risk management

The Company's operations expose it to a number of principal risks. The Company has in place a risk management framework that seeks to limit the adverse effects of these risks on the performance of the Company.

a) Financial risk

The Company is exposed to various types of risk associated with financing and financial transactions, leading to financial loss and uncertainty as to its extent. To monitor and mitigate this the Company has:

- Constant assessment of market conditions and implications for its assets under management by third parties;
- Management of cash flow and the free cash position of the Company;
- Monitoring and measurement of risk and capital implications through stress and scenario testing.

b) Strategic risk

The Company is exposed to medium to long term risks affecting the Company's ability to meet strategic objectives and deliver its Three Year Plan. To monitor and mitigate this:

- Trading results are monitored closely to ensure tactical changes are implemented as and when required;
- Pricing agility enables the Company to react to external influences, ensuring that it is able to optimise commercial performance;
- The transformation of repair and mobility services leading to improved commercial terms, better customer experience and new digital functionality;
- Ongoing monitoring of changes within the legal and regulatory landscapes together with the maintenance of open and transparent communication with the relevant authorities;
- Close working relationships with regulators, Government agencies and industry bodies and ongoing monitoring of developments between the UK and Gibraltar;
- Supply chain management and review;
- Established working group to assess the Brexit risk landscape and actions to mitigate.

c) Conduct risk

Conduct risk relates to practices or actions which inadvertently result in poor outcomes for customers, including failing to protect or meet the diverse needs of its vulnerable customers. The Company monitors and mitigates this by:

- Ongoing monitoring of changes within regulatory landscapes together with the maintenance of open and transparent communication with the relevant authorities;
- Continued monitoring of the retail pricing strategy and monthly pricing committee to ensure effective governance and controls to mitigate the risk of customer harm;
- Oversight and challenge of first line practices and actions through various governance committees, and second line reviews.

d) Data governance risk

The risk that the culture, organisational set up or data management within the organisation breeds, incentivises or facilitates data misuse or theft, including cyber related risks. The Company monitors and mitigates this by:

- IT infrastructure monitoring, data assessment and perimeter testing;
- Increased investment in information security and cybercrime defences and controls;
- Ongoing training and a culture of compliance, both in first and second lines, to ensure the Company continues to protect itself from the various and changing cyber threats;
- Established data protection team, with technical expertise;
- Control and governance via policies and strategy;
- Formalised Data Privacy Impact Assessment process within business operations.

e) Operational risk

The risk of loss resulting from inadequate or failed policies or controls, people, poor culture and systems. The Company monitors and mitigates this by:

- Regular review of resilience risks, contingency back up capability, system stability and supplier continuity plans;
- Dedicated anti-fraud operations team, "Insight", operating an integrated, comprehensive risk profiling review process and loss validation division;
- Use of market leading anti-fraud detection technology driving benefits through analytics and machine learning;
- Ongoing supplier relationship and performance management, with regular due diligence reviews;
- Programme discipline and process controls are supported by an over-arching control framework to underpin effective governance and quality;
- Investment in colleague wellbeing, benefits, career development and flexible working arrangements.

f) Legal & regulation

The risk of loss as a result of a breach in existing legal or regulatory requirements. The Company monitors and mitigates this by:

- Effective regulatory horizon scanning capability to review the potential implications to the Company;
- Continued review and oversight by all three lines of defence, including second line compliance and assurance teams.

In its 2019/2020 business plan, the FCA reiterated that "Protecting Consumers from harm is at the core of our work". As part of this, key priorities continue to be fairness in pricing and product value, general insurance pricing practices, governance and oversight in the distribution chain and access and exclusion in insurance. The Company continues to support and engage in FCA reviews, with general insurance pricing practices to being a key area. The FCA's interim report on the review of pricing practices was released in October 2019 and it was anticipated that the FCA would publish its policy conclusions, including remedies, in the first half of 2020, although this may now be delayed given the ongoing disruption due to COVID-19. There are a range of possible remedies and options on which the FCA may conclude. Management considers HISL's agile and price comparison website focused business model to be well placed to deal with the potential outcomes, and continues to closely monitor and assess the impacts of developments in this area.

Governance statement

The Company adopted the Wates Principles ('Wates') as its governance regime at the beginning of 2019. Prior to this, the Company had applied relevant provisions and principles of the UK Corporate Governance Code ('Code'), as appropriate for a non-listed company. Since the beginning of 2019, the Company has therefore adopted a hybrid approach of full compliance with Wates and an application of those principles of the Code that are appropriate.

The Company has a unitary board of directors, in common with best practice within the UK. As at 31 December 2019, the Board had four independent Non-Executive Directors and one Executive Director. The Board is chaired by an independent Non-Executive Director.

The Board's Terms of Reference provide that the Board should comprise a minimum of four Directors, at least of two of whom must be independent Non-Executive Directors. Should the number of Directors, from time to time, exceed four, the Board must ensure that there shall at least be an equal or greater number of Non-Executive Directors than Executive Directors. No Director has unfettered powers.

The Board has delegated certain matters to two Committees, each with their own Board approved Terms of Reference:

- Risk and Compliance Committee;
- Conduct Committee.

The Risk and Compliance Committee advises the Board on risk management issues, recommends the framework of risk limits and risk appetite to the Board for approval, and oversees the risk management arrangements of the Company, including the embedding and maintenance of a supportive risk management culture. It also monitors and promotes compliance by the Company with all of its regulatory obligations and provides assurance that these are being effectively complied with.

The Conduct Committee provides assurance to the Board that the fair treatment of customers remains at the heart of the Company's business model and monitors all aspects of the Company's operational performance that reflect whether the Company pays due regard to the interests of its customers, and is effectively mitigating conduct risk.

Both of these Committees are chaired by an independent Non-Executive Director and members or attendees comprise other Directors and members of senior management within the Company. The Committees meet on a regular basis throughout the year and formally report to the Board on all significant matters after each meeting. The Board meets at least six times each year. All Board and Committee meetings are minuted.

Environment, Social and Governance ('ESG')

The Company's approach to ESG is based on its 4Cs ways of working: Colleagues, Customers, Company and Community. The 4Cs principles are simple: by creating the right culture for colleagues, and giving them the right tools to do their job, they will do more for customers, enabling the company to grow profitably and sustainably, and allowing it to invest in the communities it serves.

Ethical conduct and strong governance is integral to meeting the needs of colleagues and customers and running a successful business, and a broader focus on the environmental and social impacts of the Company's activities underpins that philosophy.

The Company continues to develop and enhance its ESG strategy, to include specific metrics and targets across those areas that most impact on the Company's sustainability for the long term, with full consideration of the impacts of climate change on and from the Company's operations. Certain factors are already well developed with relevant metrics and targets, for example gender diversity, gender pay-gap reporting, and certain environmental matters.

All of our colleagues are responsible for conducting themselves in a manner that reflects our ESG principles, for example, by embracing our initiatives to:

- Invite our customers to receive all their documentation electronically;
- Support local businesses by incentivising colleagues with a range of unique offers to encourage and incentivise them to buy from local retailers and suppliers;
- Promote a Travel Green scheme that encourages our colleagues to make greener journeys to work through car sharing, increased cycle use, and discounted rail travel;
- Provide dedicated recycling and confidential waste stations within our offices;
- Promote re-usable cups for coffee and tea to reduce the c.20,000 plastic-lined cups previously used every month alongside the use of dedicated coffee cup recycling stations;
- Protect the environment, and contribute to measures to combat the adverse effects of climate change, by banning all single-use plastic cups from all of our sites in 2019, removing c.350,000 disposable plastic cups from the environment, and introducing compostable packaging and cutlery in our in-house restaurants;
- Use reduced energy electric light bulbs and motion sensitive lighting where possible and practical;
- Recycle unwanted furniture and computer equipment by donating it to local charities and organisations.

Colleague engagement

The Company's annual engagement survey, YourVoice, provides senior management and the Board with feedback on how colleagues feel about working for the Company. The results of annual and pulse surveys carried out throughout the year are presented to the Board. Key themes raised by colleagues are captured through company-wide and local action plans that drive improvements where necessary; progress is measured and monitored through the year.

The Company re-constituted the Hastings Colleague Forum ('HCF') in 2017 to consolidate and formalise previous colleague engagement models. The HCF is made up of, and chaired by, colleague-elected representatives from across the business who meet monthly to discuss and consider issues impacting all colleagues. The HCF also regularly meets with senior management and Board representatives to discuss key changes, and to provide invaluable feedback and insight from their respective departments. Toby van der Meer, Executive Director, and the Group HR Director regularly attend meetings and enjoy a positive and constructive relationship with the HCF. Toby provides regular updates to other Board members on matters arising from these meetings.

In October 2019 the HCF held its first AGM attended by colleague representatives from our Bexhill and Leicester sites. The agenda for the day covered a range of topics including business updates, benefits consultation, and an open session with senior leaders.

To better understand and be informed of matters that concern the Company's workforce, the Directors also met with colleagues and spent time with them in operational areas during 2019.

The Company promotes a safe, diverse and inclusive environment, free from bullying, harassment and discrimination, within which all colleagues should be treated fairly and with respect. The Company is committed to eradicating all types of discrimination, whether based on disability, religious beliefs, gender, sexual orientation, age or other factors.

It is hoped that no colleague will need to raise a grievance against the Company and/or one of its colleagues. If a colleague wishes to raise a grievance this is resolved informally and as quickly as is possible. Where it is not possible to resolve a grievance informally a formal procedure is instigated.

Disciplinary procedures against colleagues are used as a last resort where a breach of the standards and/or performance expected from colleagues' falls significantly short or where fraud or other criminal activity is proven. Treating colleagues fairly and consistently is key to maintaining the correct level of conduct. When a colleague fails to meet the required standards expected of them, other than in case of gross misconduct, they are coached and provided with development and training to improve. Referral to counselling or wellbeing services may also be offered. In the event that standards of conduct and/or performance do not improve over a period of time, then disciplinary measures may be required. Acts of gross misconduct by colleagues, such as a serious breach of the contractual relationship between the colleague and the Company, will usually result in dismissal with or without notice.

Colleagues are free to be appropriately accompanied in relation to a grievance or disciplinary matter. In the event that a grievance is not upheld, or a disciplinary matter is not dealt with to the satisfaction of the colleague, they have the right to appeal. In addition should colleagues feel the need for additional support, the Company provides a colleague assistance programme, free of charge, so that colleagues can obtain free and independent external advice.

The Company does not formally recognise a trade union, preferring to communicate and engage with colleagues directly either through the HCF, the YourVoice colleague survey, via email and intranet, or directly with individual colleagues as appropriate. Trade union membership is not, however, prohibited and the Company does not restrict union representation at a grievance or disciplinary meeting should any colleague request such.

The Company is an equal opportunities employer. The Company's equal opportunities policy is designed to treat all job applicants and employees equally, based on individual ability regardless of race, religion and belief, gender, age or disability. This principle applies to recruitment and selection, promotion, transfer, training, discipline and grievance and all terms and conditions of employment.

Conduct

The Company's Conduct Policy provides guidance on the appropriate and responsible conduct of colleagues and the ethical standards they are required to uphold. The Company strives to maintain the highest standards of governance, personal and corporate ethics, and compliance with legislation and regulation. It values integrity and honesty in dealings with all stakeholders to ensure that financial and reputational damage is minimised. The Policy provides guidance on the Company's expectations in relation to: conduct with customers, anti-corruption and anti-bribery, conflicts of interest, gifts and hospitality, colleague engagement and wellbeing, and the community within which the Company operates. Regular training is provided to colleagues on conduct matters and is monitored through regular assessment and half yearly personal development reviews.

Business ethics risks are reviewed by management and overseen by the individual governance forums on a regular basis. The Conduct Committee provides assurance to the Board that the fair treatment of customers remains at the heart of the business model and monitors all aspects of the Company's operational performance that reflect whether the Company pays due regard to the interests of its customers, treats them fairly and is effectively mitigating conduct risk.

Data and cyber security and privacy rights

The Company takes the protection and integrity of personal data very seriously. Management continually works on developing and enhancing the Company's information security framework which is designed to identify and understand potential threats as well as manage and mitigate potential risks. By investing in IT security and cyber resilience the Company is refining existing controls and introducing additional controls to protect the data it retains as well as to detect, prevent, and establish detailed plans to respond to cyber-attacks.

Management continues to focus on ensuring customers' statutory privacy rights are upheld, including a commitment to process personal data securely by means of appropriate technical and organisational measures. During the year the Company attained Cyber Essentials certification and successfully completed assessments for both e-commerce, mail order and telephone compliance. Information security, cyber security, data protection and data privacy policies are in place and sit alongside the technical and procedural controls to combat financial crime, bribery and corruption. Mandatory training on these matters is conducted across the Company for all colleagues and supplementary training is also provided where required.

The Company's cyber, data and privacy governance links security and data activities to the Company's goals and strategy, engages and empowers colleagues who are responsible for making security and data decisions, and promotes effective management of cyber and data risks including building an adequate response to cyber-security threats. This governance framework seeks to address process and human vulnerabilities, reduce the complexity of the Company's technology and data estate, and embed cyber security consideration in all business decision making. Operational measures are in place to monitor and respond to data breaches and cyber-attacks. These measures are routinely and independently validated and tested, through vulnerability assessments and penetration testing.

Whistle blowing, anti-bribery and corruption

A whistle blowing policy is in force across the Company to enable colleagues to raise potential or actual serious matters of misconduct which they believe would damage the performance or reputation of the Company. A confidential, externally serviced hotline and web reporting tool that is open 24 hours a day, every day, is provided for all colleagues to raise matters of potential or actual misconduct. Colleagues are encouraged to disclose, in good faith, the actual or suspected activity where they believe that at least one relevant failure; is currently occurring, has taken place in the past, or is likely to happen in the future. Colleagues can make a report anonymously should they so choose. Any colleague that makes a report will be accorded protection under legislation and any colleague who makes a disclosure in good faith will not suffer reprisals, victimisation or discrimination.

Financial crime, for example money laundering and/or terrorist financing, is a serious matter for all companies and more so for those that operate within the financial services sector. The Company has policies in place in relation to combatting money laundering, terrorist funding, fraud, bribery, corruption and tax evasion. Colleagues are required to undertake regular awareness training on all types of financial crime and must follow policies, procedures and guidelines in relation to all its operations. Background checks on prospective and existing colleagues are undertaken throughout the year to help combat internal fraud.

The Company also ensures that unethical practices do not take place relating to bribery and/or corruption and it is committed to prohibiting such activities within its operations and dealing with suppliers and service providers. This prohibition also extends to facilitation payments that may be used in certain industries and/or countries where payment of cash or gifts to an official are used to enable transactions to be accelerated, by-passing usual bureaucratic processes.

The Company's Money Laundering Reporting Officer is responsible for the application of anti-bribery and anti-corruption measures and reporting, ensuring the business undertakes bribery and corruption risk assessments and that regular training is provided to all colleagues. The Company has zero appetite for bribery and corruption whether offered to, or given by, any colleague and uses the definition of bribery contained within the UK Bribery Act 2010.

Environmental matters

The Company's direct operations are purely office based and as such have a relatively low impact on the environment compared to other industries, however, we seek to improve the Company's and our colleagues' footprint as much as possible. Conquest House is the Company's head office and the building was built in the 1970s. Improvements to Conquest House for the benefit of our colleagues and the environment are ongoing. We encourage our colleagues to use public transport as much as possible and operate cycle to work and car share schemes. Charging points for electric vehicles are installed at our Bexhill site and are free to use for colleagues.

Our environmental commitments also extend to our colleagues where we provide a safe, healthy working environment. We strive to ensure that all colleagues are able to work, rest and play in an environment that promotes safety and good health. Our sites provide areas where colleagues can leave their work stations, de-stress and relax, including a clean restaurant stocked with healthy food, quiet rooms and outside space, and games rooms.

Compliance

The Company has in place risk and compliance functions that oversee and monitor risk and regulatory matters. Compliance functions monitor the Company's compliance with applicable regulation and legislation and provide advice and guidance on all compliance matters. Compliance assurance monitoring is also undertaken across business operations to ensure the Company complies with its regulatory obligations and that processes and procedures are in place and are adhered to. This monitoring complements the reviews undertaken by the independent internal auditor.

Supplier due diligence

Strong and productive supplier relationships are key to the Company's continued success. We work closely with our local and national suppliers to communicate our standards, values, principles and sustainability goals to them and ensure they are aligned in helping us offer the best price, product and service solutions to benefit our customers and colleagues.

Suppliers of key services to the Company are subject to a robust due diligence process under a Supplier Relationship Management Framework in order to enhance relationship and risk management. Critical suppliers are subject to ongoing reviews throughout the year at which service levels and adherence to processes and procedures are discussed and improvements made as appropriate.

Customers

The Company provides car, van, bike and home insurance customers in the United Kingdom with products at competitive prices. However customers choose to interact with the Company, they are supported by a delivery of service that strives to exceed expectations.

Treating customers fairly is at the heart of the Company's operations: by delivering fair outcomes for all customers at any point in their journey, whether purchasing, renewing or cancelling their insurance or making a claim. The Company listens to feedback and makes improvements across all customer processes where appropriate. When things do not go as planned or fail to meet expectations, the Company does not place barriers in a customer's way instead it seeks to resolve the matter as quickly as possible and make it as simple as possible for customers to feedback or complain.

Community support

The Company's Charity Events Committee is made up entirely of colleagues who volunteer to organise fundraising events. Local charities, nominated by colleagues, are supported through the Company's Community Fund which provides a helping hand to local individuals or groups via advice, physical support or small grants to help with fundraising.

Significant interaction with schools, colleges and universities in and around our communities by the Company and its colleagues help to develop, attract and nurture home grown talent. In 2019 the Company continued its sponsorship of the 'Be the Change' programme in Bexhill and Leicester which aims to raise the aspirations of local 13 to 14 year olds. The programme is designed to help remove barriers that may make students disengage from school, and in life, and provide them with life skills to help shape their future and make a difference to their education and career paths. Company colleagues volunteer as business mentors to help support the students with personal and professional advice and guidance.

Provision of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- So far as the Director is aware, there is no relevant information of which the Company's auditor has not been made aware;
- Each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

Auditor

KPMG LLP is continuing in office and is therefore deemed to be re-appointed in accordance with section 487 of the Companies Act 2006.

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

T van der Meer
Director
Date: 14 April 2020
Registered number: 03116518

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU') and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Hastings Insurance Services Limited

Opinion

We have audited the financial statements of Hastings Insurance Services Limited ('the Company') for the year ended 31 December 2019 which comprise the Statement of Profit or Loss, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and Directors' report

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- We have not identified material misstatements in the strategic report and the Directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- 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; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 15, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the Financial Reporting Council's ('FRC') website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Salim Tharani (Senior Statutory Auditor)

for and on behalf of KPMG LLP,

Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

Date: 15 April 2020

Statement of Profit or Loss
for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'m	31 December 2018 £'m
Revenue	4	330.3	331.6
Other expenses	5	(237.3)	(208.2)
Finance income	7	1.0	1.3
Adjusted operating profit[1]		94.0	124.7
Amortisation and depreciation	5	(15.3)	(7.1)
Finance costs	20	(0.4)	(0.5)
Profit before tax		78.3	117.1
Taxation expense	8	(15.1)	(22.2)
Total profit for the year		63.2	94.9

All results arose from continuing operations.

The Company did not have any other comprehensive income in the current or prior period.

The accompanying Notes form an integral part of these Financial Statements.

[1] Adjusted operating profit represents profit before taxation expense, amortisation and depreciation. This is a non-IFRS measure used by management to measure the underlying trading of the business and is provided for information.

Balance Sheet
as at 31 December 2019

	Note	31 December 2019 £'m	31 December 2018 £'m
Non-current assets			
Intangible assets	9	84.4	75.2
Property and equipment	10	18.1	19.4
Contract costs	11	22.7	21.3
Total non-current assets		125.2	115.9
Current assets			
Contract costs	11	26.3	25.5
Trade and other receivables	13, 15	363.8	347.6
Prepayments		8.1	7.0
Cash and cash equivalents	14, 15	44.3	55.9
Total current assets		442.5	436.0
TOTAL ASSETS		567.7	551.9
Equity			
Share capital	16	8.0	8.0
Capital contribution from Parent		7.3	5.9
Retained earnings		162.2	144.2
Total equity		177.5	158.1
TOTAL EQUITY		177.5	158.1
Non-current liabilities			
Deferred income	19	1.9	1.9
Deferred income tax liability	12	2.5	0.6
Total non-current liabilities		4.4	2.5
Current liabilities			
Trade and other payables	15, 18	369.5	369.1
Deferred income	19	13.2	10.8
Current tax liabilities		3.1	11.4
Total current liabilities		385.8	391.3
TOTAL LIABILITIES		390.2	393.8
TOTAL EQUITY AND LIABILITIES		567.7	551.9

The accompanying Notes form an integral part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 14 April 2020 and were signed on its behalf by:

T van der Meer

Director

Company Number: 03116518

Statement of Changes in Equity
for the year ended 31 December 2019

	Note	Share capital	Capital contribution from Parent	Retained earnings	Total equity
		£'m	£'m	£'m	£'m
As at 1 January 2018		8.0	4.6	82.3	94.9
Impact of implementing IFRS 15		-	-	39.8	39.8
Impact of implementing IFRS 16		-	-	(1.1)	(1.1)
Impact of implementing IFRS 9		-	-	(2.9)	(2.9)
Tax impact of implementing IFRS 15		-	-	(7.4)	(7.4)
Tax impact of implementing IFRS 16		-	-	0.2	0.2
Tax impact of implementing IFRS 9		-	-	0.5	0.5
Adjusted as at 1 January 2018		8.0	4.6	111.4	124.0
Total profit for the year		-	-	94.9	94.9
Capital contribution from Parent	17	-	1.3	-	1.3
Tax on share based payments		-	-	(0.4)	(0.4)
Dividends paid	24	-	-	(61.7)	(61.7)
As at 31 December 2018 and 1 January 2019		8.0	5.9	144.2	158.1
Total profit for the year		-	-	63.2	63.2
Capital contribution from Parent	17	-	1.4	-	1.4
Tax on share based payments		-	-	0.1	0.1
Dividends paid	24	-	-	(45.3)	(45.3)
As at 31 December 2019		8.0	7.3	162.2	177.5

The accompanying Notes form an integral part of these Financial Statements.

Statement of Cash Flows
for the year ended 31 December 2019

	Note	31 December 2019 £'m	31 December 2018 £'m
Profit after tax		63.2	94.9
Adjustments for:			
Finance income	7	(1.0)	(1.3)
Taxation expense	8	15.1	22.2
Amortisation of intangible assets	5, 9	10.0	2.5
Depreciation of property and equipment	5, 10	5.3	4.6
Derecognition and loss on disposal of property and equipment		0.2	(0.1)
Share based payment charge	17	1.6	2.1
Change in trade and other receivables		(16.2)	(33.5)
Change in contract cost assets		(2.2)	(5.3)
Change in trade and other payables		3.0	18.6
Change in prepayments		(1.0)	(4.4)
Taxation paid		(17.9)	(20.8)
Contribution to parent share based payment scheme		(0.2)	(0.6)
Net cash flows from operating activities		59.9	78.9
Acquisition of property and equipment		(5.2)	(3.0)
Acquisition of intangible assets		(18.8)	(17.2)
Interest received	7	1.0	1.3
Net cash flows from investing activities		(23.0)	(18.9)
Repayment of lease liabilities		(3.2)	(1.9)
Dividends paid	24	(45.3)	(61.7)
Net cash flows from financing activities		(48.5)	(63.6)
Net decrease in cash and cash equivalents		(11.6)	(3.6)
Cash and cash equivalents at beginning of year		55.9	59.5
Cash and cash equivalents (outflow)/inflow for the year		(11.6)	(3.6)
Cash and cash equivalents at end of year	14	44.3	55.9

The accompanying Notes form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Basis of preparation

Hastings Insurance Services Limited (the 'Company' or 'HISL') is a company incorporated in England and Wales. Its registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, TN39 3LW, United Kingdom. The Company's registered number is 03116518.

The principal activities of the Company are to broker private car, van, bike and home insurance within the United Kingdom ('UK') and to provide insurance outsourcing services.

The Financial Statements comprise the results of the Company for the year ended 31 December 2019 and comparative figures for the year ended 31 December 2018.

The Company has prepared its Financial Statements in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union that are in effect as at 31 December 2019 ('IFRS'). IFRS comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee.

The Company has taken the exemption from preparing consolidated financial statements under IFRS 10 Consolidated Financial Statements and S.400 of the Companies Act 2006. Hastings Group Holdings plc ('HGH') is the Company's ultimate parent and produces consolidated financial statements prepared under IFRS which can be obtained from its registered address at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW, UK.

a) Going concern

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report and Directors' Report. The Balance Sheet of the Company, its cash flows, liquidity position and borrowing facilities are set out in the primary statements and described in the Notes to the financial statements, including Note 26, Events after the reporting period. Whilst the full extent of the corona virus ('COVID-19') global pandemic is as yet unknown, the Company has continued to operate, generate revenues and service customers who need insurance or to make claims during the UK Government mandated 'lock down', and expects to be able to continue to do so through increased home working, use of technology and other mitigating actions. The Directors have considered the likely financial impacts that could result from the pandemic, including the subsequent economic consequences, and the potential impact on the Company.

Having considered the foregoing items and the most recently prepared budgets and cash flow forecasts for the next 12 months and beyond and, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

b) Basis of measurement

The Company's functional currency is pound sterling and the financial statements are presented in pounds sterling. Amounts are rounded to the nearest million with one decimal place (e.g. £0.1m) except where otherwise indicated.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The financial statements are prepared on the historical cost basis, except for certain financials assets and property which are measured at their fair value or revalued amounts.

c) Adoption of new IFRS

Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)

On 13 March 2019, the EU endorsed the following amendments, which are effective from 1 January 2019:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: previously held interest in a joint operation
- IAS 12 Income Taxes: income tax consequences of payments on financial instruments classified as equity;
- IAS 23 Borrowing Cost: borrowing costs eligible for capitalisation.

These amendments did not have a material impact on the Company's financial statements upon adoption on 1 January 2019.

Amendments

On 1 January 2019, the Company also adopted the following clarifications and amendments to the standards which were effective from 1 January 2019. These did not have a material impact upon the financial statements:

- IFRIC 23 Uncertainty over Income tax treatments - endorsed by the EU on 23 October 2018. IFRIC 23 Uncertainty over Income Tax Treatments which provides additional guidance on the application of IAS 12 Income Taxes.
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement – endorsed by the EU on 13 March 2019. The amendments require that, when an entity remeasures its net benefit liability or asset after a plan amendment, curtailment or settlement, it uses the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period.
- Amendments to IAS 28 Investments in Associates and Joint Ventures Long-term Interests in Associates and Joint Ventures – endorsed by the EU on 8 February 2019. The amendments clarify that an entity applies IFRS 9 Financial Instruments to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.
- Amendments to IFRS 9: Prepayment Features with Negative Compensation – endorsed by the EU on 22 March 2018. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The following accounting standards have been issued by the IASB but are not yet effective in the EU and have not yet been adopted within these financial statements:

IFRS	EU Status
IFRS 17 Insurance contracts	Not yet endorsed by the EU
IAS 1 Presentation of Financial Statements	Not yet endorsed by the EU
IFRS 3 Business combinations	Not yet endorsed by the EU
IAS 1 and IAS 8 Definition of Material	Endorsed by the EU on 29 November 2019 and effective from 1 January 2020
IFRS 9, IAS 39 and IFRS 7 Interest rate benchmark reform	Endorsed by the EU on 15 January 2020 and effective from 1 January 2020

IFRS 17 Insurance Contracts ('IFRS 17')

The IASB issued IFRS 17 Insurance Contracts on 18 May 2017. IFRS 17 provides a comprehensive framework for accounting for insurance contracts and it is anticipated to impact the treatment and measurement of income, expenses, assets and liabilities arising from insurance contracts. In June 2019, the IASB published the Exposure Draft Amendments to IFRS 17, with the target to issue the revised IFRS 17 in 2020. On 17 March 2020, the IASB voted to approve the effective date of standard as 1 January 2023, subject to endorsement, and confirmed its intention to issue the revised standard in the middle of 2020. This is a two year delay on the original effective date published by the IASB.

Management does not expect that the adoption of IFRS 17 will have a significant impact on the Financial Statements as the Company does not underwrite insurance contracts.

Amendment to IFRS 3 Business Combinations (issued on 22 October 2018)

This is expected to be endorsed in Q1 2020, effective 1 January 2020. These amendments are not expected to have a significant impact on the Company's financial statements.

Amendments to IAS 1 and IAS 8 – Definition of Material (issued on 31 October 2018)

Endorsed by the EU on 29 November 2019, effective 1 January 2020. These amendments are not expected to have a significant impact on the Company's financial statements.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (issued on 26 September 2019)

Endorsed by the EU on 15 January 2020, effective 1 January 2020. The amendments address issues for hedging relationships directly affected by uncertainties arising from the interest rate benchmark reform, including cross-currency interest rate swaps, and provide relief for highly probable and prospective assessments required by IFRS 9 and IAS 39 and retrospective assessments under IAS 39. Management is currently assessing the impact of these amendments on the Company's Financial Statements.

2. Accounting policies

a) Revenue recognition

Revenue consists principally of brokerage activities, premium finance interest and other fees relating to the arrangement and handling of insurance contracts.

Revenue from contracts with customers

Revenue from contracts with customers arises primarily from insurance broking activities which consists principally of fees and commissions relating to the arrangement of third party underwritten insurance contracts and ancillary products. The Company's performance obligation under such contracts is to broker contracts between customers and underwriters or service providers.

Revenue from broking and other fees is measured at the fair value of the income receivable and is recognised on satisfaction of the Company's performance obligations. The fair value measurement makes allowance for expected future refunds to customers in the event of cancellation before the expiry of the policy. Discounts on revenue are deducted from the revenue streams to which they relate.

The Company satisfies its performance obligations for insurance broking contracts at a point in time; revenue is recognised at arrangement date unless the Company retains the obligation to handle claims on policies placed, whereby a portion of revenue is deferred and recognised as claims are handled.

Revenue arising from insurance broking activities is measured on an agency basis, net of cost, at the fair value of the income receivable after adjusting for any allowance for expected future cancellation refunds.

The Company may also provide contracts for the provision of other ad hoc, point in time services to customers. Such income is recognised when the performance obligation has been satisfied at the expected value of consideration and is included within other income.

The duration of all contracts is one year or less, therefore the transaction price allocated to any unsatisfied contracts is not disclosed as permitted under IFRS 15.

Premium finance interest

Premium finance interest, earned on instalment sales, where customers choose to pay in monthly instalments instead of one single, upfront payment, is recognised in profit or loss over the term of the related agreement using the effective interest method.

All revenue arises within the UK and is recorded net of sales tax.

b) Employee benefits

Pension contributions

The Company operates a defined contribution pension scheme. The amount charged to profit or loss in respect of pension costs is the amount of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. The Company has no obligation to make any further payments to the plans other than the contributions due. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Share based payments

The Company's ultimate parent company, HGH, operates equity-settled share based payment schemes under which the Company's employees may receive free share awards or nil cost options, depending on the scheme. Awards may have service and performance conditions attached.

The fair value of a share based payment award is determined at grant date and expensed on a straight line basis over the vesting period, with a corresponding credit recognised as a capital contribution within equity where the Company does not settle the obligation or repay the parent Company. Where the Company settles the shares the scheme is accounted for as cash settled with a corresponding asset or liability for payments made less fair value earned. Expected vesting in respect of both service conditions and non-market performance conditions are reviewed annually and adjustments are made retrospectively to the cumulative expense recognised.

c) Finance income

Finance income comprises interest due on cash and cash equivalents and is recognised in profit or loss using the effective interest method.

Notes to the Financial Statements (continued)

d) Taxation

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to a business combination, items recognised in other comprehensive income or items recognised directly in equity.

Current taxation expense is the expected income tax payable on the taxable profit for the period, using tax rates applicable and any adjustment to income tax payable in respect of previous financial periods. Deferred taxation expense is the change in deferred income tax assets and liabilities between the reporting periods.

Deferred income tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred income tax liability is recognised for all taxable temporary differences except when they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised.

e) Intangible assets

Computer software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses.

Purchased computer software is initially recognised at cost, being the fair value of consideration transferred plus directly attributable costs incurred in order to prepare the asset for its intended use.

Internally developed computer software is only recognised as an asset when the costs can be measured reliably, completion is technically and financially feasible, future economic benefits are probable and there is intention to use or sell the asset. Other research and development expenditure is recognised in profit or loss as incurred.

Amortisation is provided on all computer software, at rates calculated to write off the cost of the assets less their estimated residual value over their expected useful lives. Amortisation is calculated using the straight line method and is recognised in profit or loss.

Expected useful economic lives and residual values are reviewed at each period end and, where necessary, changes are accounted for prospectively. The expected useful economic lives are between three and ten years for all of the Company's software.

Carrying amounts are reviewed at each period end to determine if there are indicators of impairment. Where these exist the asset's recoverable amount is estimated and compared to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use. Where the asset's recoverable amount exceeds its carrying amount, the difference is recognised as an impairment loss in profit or loss.

Software is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. On derecognition, any gain or loss arising is calculated as the difference between the net disposal proceeds and the carrying amount of the item. This is recognised in profit or loss in the period of derecognition.

f) Tangible assets

Tangible assets consisting of fixtures, fittings and equipment, computer equipment and leasehold improvements, is stated at historical cost less accumulated depreciation and impairment losses. Cost is the fair value of consideration provided plus incidental costs incurred to bring an asset to the condition and location necessary for its intended use.

Costs incurred subsequent to the initial production of the asset are capitalised where they are deemed to have improved the original.

Depreciation is provided on all property and equipment, at rates calculated to write off the cost, or fair value in the case of property, of the assets less their estimated residual value over their expected useful lives. Depreciation is calculated using the straight line method and is recognised in profit or loss.

The expected useful economic lives of property and equipment are as follows:

• Leasehold improvements	Shorter of 4-10 years or the remaining lease period
• Computer equipment	2-5 years
• Fixtures and fittings	3-5 years

Expected useful economic lives and residual values are reviewed at each period end and, where necessary, changes are accounted for prospectively.

Carrying amounts are reviewed at each period end to determine if there are indicators of impairment. Where these exist the asset's recoverable amount is estimated and compared to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use. Where the asset's recoverable amount exceeds its carrying amount, the difference is recognised as an impairment loss in profit or loss.

Property and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. On derecognition, any gain or loss arising is calculated as the difference between the net disposal proceeds and the carrying amount of the item. This is recognised in profit or loss in the period of derecognition.

g) Work in progress

Work in progress includes intangible and tangible assets in the course of development which are considered to be eligible for capitalisation but which have not yet reached the state where they are ready for their intended use. As such no amortisation or depreciation has yet been charged on these assets.

h) Contract cost assets

Contract cost assets consist of costs incurred to obtain and fulfill a contract. They are recognised over the life of the expected customer relationship.

Costs to obtain the contract are only recognised as a contract cost asset if they are recoverable and would only have been incurred if the contract is obtained. Costs that would have been incurred regardless of whether the contract was obtained are recognised as an expense when incurred.

Costs to fulfil a contract are only recognised as a contract cost asset if they meet the following criteria; they are not within the scope of another standard, relate directly to a contract, generate or enhance resources that will be used in satisfying (or in continuing to satisfy) performance obligations in the future and are expected to be recovered.

i) Leases

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement of a lease or contract containing a lease, the Company recognises a right of use asset and a lease liability on the balance sheet.

The Company initially measures a right of use asset at cost comprising the corresponding lease liability adjusted for any payments made at or before the commencement date plus any initial direct costs incurred and any dismantling costs, if applicable. Subsequently, from commencement date, a right of use asset is depreciated using the straight line method to profit or loss over the lease term or usage term. Right of use assets are reported in the balance sheet within property and equipment.

A lease liability is initially measured and recognised at the present value of outstanding lease payments at the lease commencement date, using the Company's incremental borrowing rate in most instances; unless the interest rate implicit in the lease can be readily determined, in which case this is used instead. Lease liabilities are reported in insurance and other payables in the balance sheet.

j) Financial assets

The Company's financial assets comprise trade and other receivables which are classified as loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value plus any directly attributable transaction costs less any expected future credit losses and are subsequently measured at amortised cost using the effective interest method, less any additional accumulated impairment losses.

Insurance and other receivables are classed as loans and receivables. Insurance receivables include amounts not yet due in respect of insurance premiums where the policyholder has elected to pay in instalments over the term of the policy.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported by the Company only when there is a current unconditional and legally enforceable right to offset the recognised amounts in all circumstances (including the default by, insolvency or bankruptcy of the Company and all counterparties), and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have been transferred. Any residual gains or losses resulting from the derecognition of the asset are recognised in profit or loss in the period of derecognition.

Impairment of financial assets

The Company assesses at each period end date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Company about events such as:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments; or
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding expected future credit losses that had not been incurred). The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The expected credit losses have been calculated using the prior two years' credit loss experience and the credit risk of the book is monitored by management as part of the day to day running of the company. Potential future changes to the risk profile for the next year are considered as part of this monitoring process and are currently assessed as immaterial.

k) Cash and cash equivalents

The Company's cash and cash equivalents consist of cash in hand and at bank, investments in highly liquid money market funds and other short term deposits that are redeemable within 90 days.

l) Financial liabilities

The Company's financial liabilities comprise trade and other payables. Financial liabilities are initially measured at fair value less any directly attributable transaction costs, which are capitalised and reduce the initial liability recognised. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

m) Insurance intermediary assets and liabilities

Receivables and payables arising from insurance broking transactions are shown as assets and liabilities in recognition of the fact that the insurance broker has contractual rights to economic inflows from customers and obligations to third party insurers upon placement of insurance products with customers. Receivables are recognised when the Company provides financing to customers for instalment premiums payable to third party insurers. Payables arise where the Company has an obligation to remit premiums received to third party insurers.

n) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other financial assets, or to exchange financial assets or liabilities under potentially unfavourable conditions. Where such an obligation exists, the share capital is recognised as a liability notwithstanding the legal form.

Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from share premium to the extent that there is sufficient share premium to do so, net of tax effects.

o) Dividends

Dividends are recognised directly in equity when approved and payable.

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in accordance with IFRS requires the Directors to make judgements and assumptions that affect the assets and liabilities recognised as at the reporting date and the income and expense recognised during the reporting period as well as the content of any disclosures. Although these judgements and assumptions are based on the Directors' best knowledge of the amounts, events and actions, actual results may differ from these judgements and assumptions.

Judgements

The judgements that have been applied in preparing the Financial Statements that could have a significant effect on the amounts recognised are as follows:

Taxation uncertainties

In preparing the Financial Statements, judgement is required in assessing the likely outcome, or range of outcomes, of uncertain tax liabilities and contingent liabilities and what could be considered probable or remote, to determine whether assets or liabilities should be recognised under the relevant accounting standards. HMRC continues its enquiry into the attribution of profits for tax purposes in the Hastings Group Holdings plc Group's ('Group') operating subsidiaries. This enquiry has created potential for uncertainty in HISL's income tax treatment. HISL has considered the requirements of IFRIC 23, which is mandatory for 2019 year ends, including the requirement to consider the likelihood of the tax authorities accepting the basis of the HISL's income tax filings. Additional information regarding these judgements is disclosed in Notes 8 and 25.

Critical accounting estimates

The major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

a) Property and equipment and intangible assets

Management determines the estimated useful lives and residual values of property and equipment and intangible assets. The estimated useful lives are reviewed annually and the amortisation and depreciation charge is revised prospectively where useful lives or residual values are subsequently found to be different from those previously estimated.

Where tangible assets and intangible assets are classified as work in progress as at the reporting date, management have assessed that the criteria for recognition outlined in IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets have been fulfilled.

b) Revenue

Revenue is measured at the fair value of the income receivable and is recognised on completion of the associated service. The revenue recognised makes allowance for expected future refunds required in the event of cancellations of contracts by customers. Management judgement is required to estimate future refunds resulting from cancellations, based on cancellation experience.

A portion of revenue received for the arrangement of insurance contracts is deferred where the Company retains the obligation to handle claims on policies placed. The amount of revenue deferred is based on the expected number of claims to be handled at the reporting date.

4. Revenue

	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Brokerage and fees	224.5	227.2
Premium finance interest	105.6	104.0
Other income	0.2	0.4
Total revenue	330.3	331.6

Brokerage and fees and Other income are recognised as revenue from contracts with customers as defined by IFRS 15.

5. Other expenses

	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Profit before taxation is stated after charging		
Auditor's remuneration		
Fees for audit services in respect of these financial statements	0.1	0.1
Employee benefits	93.7	88.8
VAT refund in respect of prior periods	-	(14.6)
Administration and distribution costs	143.5	133.9
Other expenses	237.3	208.2
Amortisation of intangible assets (Note 9)	10.0	2.5
Depreciation of property and equipment (Note 10)	5.3	4.6
Amortisation and depreciation	15.3	7.1

6. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Salaries	82.4	78.1
Social security charges	7.5	6.7
Defined contribution pension plan costs	2.2	1.9
Share based payment charge	1.6	2.1
Total employee benefits	93.7	88.8

Notes to the Financial Statements (continued)

Staff numbers (including Directors)

The average number of full-time equivalent staff was as follows:

	Year ended	
	31 December 2019	31 December 2018
Operational staff	2,778	2,655
Support staff	151	169
Total staff	2,929	2,824

Key management personnel emoluments

Information relating to aggregate key management personnel emoluments is disclosed in the table below.

	Year ended	
	31 December 2019 £'m	31 December 2018 £'m
Short term employee benefits	1.7	1.6
Post employment benefits	0.1	0.1
Share based payments	0.3	0.4
Total key management personnel compensation	2.1	2.1

Directors' emoluments

During the year, the compensation of the highest paid Director was £0.3m (2018: £0.3m).

Information relating to aggregate Directors' emoluments is disclosed in the table below.

	Year ended	
	31 December 2019 £'m	31 December 2018 £'m
Short term employee benefits	0.7	0.9
Share based payments	0.1	0.4
Total Directors' compensation	0.8	1.3

7. Finance income

	Year ended	
	31 December 2019 £'m	31 December 2018 £'m
Interest on cash and cash equivalents	1.0	1.3
Total finance income	1.0	1.3

Notes to the Financial Statements (continued)

8. Taxation expense

	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Current tax		
Corporation tax on profits for the year	16.6	26.8
Adjustments for prior years	(3.3)	(0.3)
Current taxation expense	13.3	26.5
Deferred tax		
Deferred taxation movement relating to temporary differences	(1.3)	(4.3)
Impact of change in the UK Corporation tax rate	(0.2)	-
Adjustments for prior years	3.3	-
Deferred taxation expense	1.8	(4.3)
Total taxation expense	15.1	22.2

Tax reconciliation:

	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Profit before tax	78.3	117.1
Applicable tax charge at the statutory tax rate 19% (2018: 19%):	14.9	22.3
Expenses and provisions not deductible for tax purposes	0.4	0.2
Impact of change in the UK Corporation tax rate	(0.2)	-
Adjustments to tax charge for prior years - current tax	(3.3)	(0.3)
Adjustments to tax charge for prior years - deferred tax	3.3	-
Total taxation expense	15.1	22.2

The UK Corporation tax rate applicable to the Company was 19.0% for the year ended 31 December 2019 (2018: 19.0%). The Chancellor of the Exchequer in his Budget on 11 March 2020, announced that the corporation tax rate for the financial year beginning 1 April 2020 will remain at 19%. Legislation will be included in Finance Bill 2020 to set the rate at 19% for financial years beginning 1 April 2020 and 1 April 2021. As at 31 December 2019 no legislation to reverse the reduction in the UK corporation tax rate had been substantially enacted and therefore the Company has applied the UK corporation tax rate of 17% from 1 April 2020 onwards. The impact of the UK rate of corporation tax remaining at 19%, would be to increase HISL's deferred income tax liabilities by £0.3m from £2.5m to £2.8m.

Further details in respect of the Company's taxation expense can be found in Note 25 Contingent Liabilities.

9. Intangible assets

	Computer Software £'m	Work in progress £'m	Total £'m
Cost			
As at 1 January 2018	22.6	52.3	74.9
Additions	0.9	16.3	17.2
Transfers	62.0	(62.0)	-
Disposals	(2.5)	-	(2.5)
As at 31 December 2018	83.0	6.6	89.6
Accumulated amortisation			
As at 1 January 2018	14.4	-	14.4
Amortisation for the year	2.5	-	2.5
Disposals	(2.5)	-	(2.5)
As at 31 December 2018	14.4	-	14.4
Net book value as at 31 December 2018	68.6	6.6	75.2
Cost			
As at 1 January 2019	83.0	6.6	89.6
Additions	0.9	18.3	19.2
Transfers	8.6	(8.6)	-
As at 31 December 2019	92.5	16.3	108.8
Accumulated amortisation			
As at 1 January 2019	14.4	-	14.4
Amortisation for the year	10.0	-	10.0
As at 31 December 2019	24.4	-	24.4
Net book value as at 31 December 2019	68.1	16.3	84.4

Computer software held as at 31 December 2019 includes internally generated software carried at £64.0m (2018: £65.9m), which primarily consists of the Guidewire platform. Guidewire is a state of the art, integrated end to end platform for claims handling, broking and billing. The Guidewire system has an expected useful economic life of 10 years, with 9 years remaining as at 31 December 2019. During the year, the amortisation charge relating to internally generated assets was £8.3m (2018: £0.5m).

Notes to the Financial Statements (continued)

10. Property and equipment

	Leasehold improvements	Computer equipment	Fixtures, fittings and equipment	Work in progress	Right of use assets	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Cost						
As at 1 January 2018	6.7	14.6	2.1	0.2	-	23.6
Opening adjustment	-	-	-	-	12.3	12.3
Additions	0.6	0.6	-	1.6	0.2	3.0
Transfers	0.5	-	-	(0.5)	-	-
Disposals	(0.2)	(0.6)	-	-	-	(0.8)
As at 31 December 2018	7.6	14.6	2.1	1.3	12.5	38.1
Accumulated depreciation						
As at 1 January 2018	2.4	11.1	1.5	-	-	15.0
Charge for the year	0.6	1.7	0.3	-	2.0	4.6
Disposals	(0.2)	(0.7)	-	-	-	(0.9)
As at 31 December 2018	2.8	12.1	1.8	-	2.0	18.7
Net book value as at 31 December 2018	4.8	2.5	0.3	1.3	10.5	19.4
Cost						
As at 1 January 2019	7.6	14.6	2.1	1.3	12.5	38.1
Additions	0.8	1.0	-	-	2.4	4.2
Derecognition	-	-	-	(0.2)	-	(0.2)
Transfers	0.4	0.4	-	(0.8)	-	-
As at 31 December 2019	8.8	16.0	2.1	0.3	14.9	42.1
Accumulated depreciation						
As at 1 January 2019	2.8	12.1	1.8	-	2.0	18.7
Charge for the year	0.7	1.6	0.3	-	2.7	5.3
As at 31 December 2019	3.5	13.7	2.1	-	4.7	24.0
Net book value as at 31 December 2019	5.3	2.3	-	0.3	10.2	18.1

Notes to the Financial Statements (continued)

11. Contract costs

	As at	
	31 December 2019	31 December 2018
	£'m	£'m
Within 12 months	26.3	25.5
Over 12 months	22.7	21.3
Total contract cost assets	49.0	46.8

Contract costs assets consist of costs incurred to obtain and fulfill a contract. They are recognised over the life of the expected customer relationship.

	31 December 2019	31 December 2018
	£'m	£'m
Contract cost assets brought forward at start of year	46.8	-
Opening adjustment for IFRS 15	-	41.5
Contact costs incurred	29.2	28.6
Contract cost recognised as expense during the year	(27.0)	(23.3)
Total contract cost assets at end of the year	49.0	46.8

12. Deferred income tax

	As at	
	31 December 2019 £'m	31 December 2018 £'m
Deferred income tax asset/(liability)		
Brought forward at start of year	(0.6)	2.5
Opening adjustment	-	(7.0)
Movement in year	(1.9)	3.9
Carried forward at end of year	(2.5)	(0.6)
Intangible assets	(2.5)	-
Depreciation in excess of capital allowances	0.9	1.1
Leases	0.2	0.2
Bad debt provision	0.4	0.5
Share based payments	-	1.1
Spreading of contract costs	(1.5)	(3.5)
Deferred income tax asset/(liability) at end of year	(2.5)	(0.6)

13. Trade and other receivables

	As at 31 December 2019 £'m	As at 31 December 2018 £'m
Contract with customer receivables		
Trade receivables	339.8	314.4
Receivable from related entity	-	0.7
Other receivables	1.0	0.9
Total Contract with customer receivables	340.8	316.0
Non-contract with customer receivables		
Receivable from related entity	22.1	31.0
Other receivables	0.9	0.6
Total non-contract with customer receivables	23.0	31.6
Trade and other receivables	363.8	347.6

The table below analyses trade and other receivables between current and overdue as well as an analysis of any provisions held. The current portion comprises balances that are due to be settled within 12 months. Overdue amounts comprise all amounts which remain uncollected after the date by which they were contractually due to be paid.

	Trade receivables £'m	Provision for impairment £'m	Net trade receivables £'m
As at 31 December 2019			
Current	343.7	(4.4)	339.3
Overdue	4.7	(4.2)	0.5
Total	348.4	(8.6)	339.8
As at 31 December 2018			
Current	318.1	(3.9)	314.2
Overdue	8.2	(8.0)	0.2
Total	326.3	(11.9)	314.4

Movements on the Company's provision for impairment are as follows:

	As at 31 December 2019 £'m	As at 31 December 2018 £'m
Provision for impairment brought forward at start of year	11.9	7.5
Opening Adjustment for IFRS 9	-	2.9
Utilised during the year	(9.1)	(4.5)
Impairments recognised during the year	5.8	6.0
Total provision for impairment carried forward at end of year	8.6	11.9

14. Cash and cash equivalents

	As at 31 December 2019 £'m	As at 31 December 2018 £'m
Cash at bank and in hand	23.2	31.9
Money market funds	21.0	16.0
Short term deposits	0.1	8.0
Total cash and cash equivalents	44.3	55.9

Cash and cash equivalents include balances of £23.7m (31 December 2018: £34.9m) relating to cash and cash equivalents held on an agency basis on behalf of insurers.

15. Financial instruments, capital management and related disclosures

a) Financial assets and liabilities

At amortised cost

The table below analyses financial instruments carried at amortised cost:

	As at 31 December 2019 £'m	As at 31 December 2018 £'m
Financial assets		
Trade receivables	339.8	314.4
Receivable from related entity	22.1	31.7
Other receivables	1.9	1.5
Total financial assets at amortised cost	363.8	347.6
Financial liabilities		
Trade and other payables to related entities	317.0	318.2
Other trade payables	14.3	13.5
Lease liabilities	11.1	11.4
Other payables	27.1	26.0
Total financial liabilities at amortised cost	369.5	369.1

The carrying value of all financial instruments carried at amortised cost at 31 December 2019 and 31 December 2018 is considered to be an approximation of fair value.

b) Objectives, policies and procedures for managing financial risks

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk for the Company are credit risk and liquidity risk.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company is exposed to credit risk are brokerage not yet received, loans and receivables and cash and cash equivalent holdings. The Company's maximum exposure to credit risk at 31 December 2019 is £408.1m (2018: £403.5m), being the carrying value of trade and other receivables and cash and cash equivalents.

The Company manages its exposure to credit risk on high liquidity investments by pursuing a strategy whereby all investments in money market funds have credit ratings of AA or above. The credit ratings of the Company's banks are monitored on a regular basis and where there is adverse movement appropriate action would be determined by the Board's Risk Committee.

The credit rating of the banks with which the Company has significant credit risk, in relation to its investments in cash and cash equivalents were as follows:

		As at	
	Rating	31 December 2019 £'m	31 December 2018 £'m
Money market funds	AAA	21.0	16.0
Cash at bank and in hand	A	23.2	31.9
Short term deposits	A	0.1	8.0
Total cash and cash equivalents		44.3	55.9

The Company has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single counterparty other than members of the Hastings Group.

Trade and other receivables are monitored closely with a view to minimising the collection period of those items. Bad debt expense exposure relating to policyholder debt charged to the income statement and the value of past due financial assets are disclosed in Note 13.

Since other assets such as cash and cash equivalents and financial assets at fair value are well diversified, the Directors believe that the Company does not hold any significant concentrations of risk.

Liquidity risk

Liquidity risk is the risk that cash may not be available to meet obligations when they fall due. The Company maintains significant holdings in liquid funds to mitigate this risk. The Company makes use of regular forecasts and budgets to monitor and control its cash flow and working capital requirements.

Financial liabilities are settled in line with agreed payment terms and managed in accordance with cash availability and inflow expectations. All financial liabilities are due within 12 months. In addition, the Company holds significant liquid assets and consequently, liquidity risk is not considered to be significant.

c) Objectives, policies and procedures for managing capital

The Company's capital comprises equity.

The Directors regularly review the amount of capital of the Company through monitoring of the financial performance of the business. Daily cash flows are produced to accurately predict when the Company's liabilities will fall due and ensure that a sufficient level of capital is maintained.

The Company, as an insurance intermediary, is also subject to a minimum capital requirement under Financial Conduct Authority rules. The Company exceeded the minimum capital requirement at all times during the year.

16. Share capital

Share capital

Share capital recognised as equity comprised shares authorised, issued and fully paid up as follows:

	As at	
	31 December 2019 £'m	31 December 2018 £'m
Authorised, issued and fully paid up ordinary share capital		
22,980,000 Ordinary Shares of 35p (31 December 2018: 22,980,000)	8.0	8.0

All shares in issue at 31 December 2019 are of a single class with common rights in relation to distribution, return of capital and voting.

Capital contributions from parent

The capital contribution relates to the share based payment charge in respect of employees of the Company that will be equity settled by Hastings Group Holdings plc ('HGH'), the Company's ultimate parent company, less any payments made by the Company in respect of the shares to be awarded.

17. Share based payments

The total charge for share based payments recognised in the profit and loss during 2019 was £1.6m (2018: £2.1m).

a) Admission awards

On 15 October 2015, HGH, the Company's ultimate parent company, granted certain management personnel of the Company share awards. The awards were for a fixed value of £3.4m, payable in HGH Ordinary Shares in two tranches, at 31 December 2017 and 31 December 2018. The awards are subject to a service condition that the members remain in employment by the HGH Group until vesting date and as at 31 December 2019 £1.4m had expired due to leavers or transfer to other entities within the Group.

The awards are classified as equity settled share based payments and had a fair value of £2.8m at grant date. On 31 December 2017, the first tranche of £1.1m vested and was net settled by issue of 166,889 Ordinary Shares of HGH on 16 January 2018 and payment of £0.6m employee taxes arising. The second tranche of £0.9m vested on 31 December 2018 and was net settled by issue of 262,186 Ordinary shares of the Company on 4 January 2019 and payment by the Company of £0.6m employee taxes arising. All share awards granted have been vested and settled.

b) Long term incentive plan

Certain management personnel are eligible to participate in the Hastings Long Term Incentive Plan ('LTIP') awarding them free shares in HGH. Vesting is subject to a three year service period and the achievement of certain performance conditions in respect of total shareholder return and adjusted earnings per share over a three year period.

During 2019, 3.5m options were granted, with a fair value of £6.4m (2018:2.3m options with a fair value of £4.4m)

Awards subject to a market condition have been valued using the Monte Carlo pricing model and those not subject to a market condition were valued using the Black Scholes model. The model inputs are as follows:

Notes to the Financial Statements (continued)

	Year ended 31 December 2019	Year ended 31 December 2018
Share price at grant date	218p	272p
Volatility per annum	26%	25%
Average comparator volatility per annum	31%	29%
Dividend yield per annum	n/a	n/a
Risk free rate per annum	0.81%	0.88%
Expected life	3 years	3 years

The expected life is the award period adjusted to reflect management's best estimate of holder behaviour. Volatility was determined with reference to insurance companies within the FTSE 350.

The following table details the outstanding number of LTIP share awards in issue:

	31 December 2019 Number of share awards million	31 December 2018 Number of share awards million
At 1 January	6.7	4.5
Granted during the year	3.5	2.3
Exercised during the year	(1.6)	-
Forfeited during the year	(1.0)	(0.1)
At 31 December	7.6	6.7
Exercisable at 31 December	-	-

c) Share Incentive Plan

In April 2016, HGH, the Company's ultimate parent company, set up an employee Share Incentive Plan ('SIP'). Under the scheme, employees are entitled to purchase up to £150 a month of shares in HGH through an employee benefit trust. The Company matches employee contributions up to £30 a month through free share awards, subject to a three year service period before the matching shares are awarded. Dividends are paid on shares, including matching shares, held in the trust by means of dividend shares. The fair value of such awards is estimated to be the market value of the awards on grant date. The Company contributed £0.3m during the year for this scheme.

In the year ended 31 December 2019, 236,802 matching shares (2018: 141,738) were granted to employees, with an estimated fair value of £0.4m (2018: £0.4m). The average unexpired life of SIP awards is 1.8 years (2018: 2.0 years).

As at 31 December 2019 593,573 (2018: 361,357) matching shares were held on behalf of employees with a carrying value of £1.1m (2018: £0.9m) within the SIP scheme.

d) Capital Appreciation Plan

On 21 December 2017, certain key management personnel were invited to participate in the Group's Capital Appreciation Plan ('CAP'), under which they may be awarded up to five free shares in the Company for every share that they place into trust. During 2019 an additional 0.6m awards were granted with a fair value of 318p each. The awards are conditional upon total shareholder return over a five year period to 31 December 2022, with the number of awards dependent upon the level of return. There is also a cap on the number of shares which may be placed in the trust by each individual. Total entitlement to shares at the end of the performance period shall be released in three tranches; one third at the end of the performance period, a further third twelve months later, and the final third twelve months after that.

Notes to the Financial Statements (continued)

The awards were valued using the Monte Carlo pricing model with inputs as follows:

	2017 CAP Grant
Share price at grant date	318p
Exercise price	0p
Volatility per annum	24%
Dividend yield per annum	n/a
Risk free rate per annum	0.8%
Expected life	5 years

The following table details the outstanding number of CAP share awards in issue:

	31 December 2019 Number of share awards million	31 December 2018 Number of share awards million
Outstanding at 1 January	1.4	1.7
Granted during the year	0.6	-
Forfeited during the year	(0.4)	(0.3)
Outstanding at 31 December	1.6	1.4
Exercisable at 31 December	-	-

18. Trade and other payables

	As at 31 December 2019 £'m	31 December 2018 £'m
Trade and other payables to related entities	317.0	318.2
Other trade payables	14.3	13.5
Lease liabilities	11.1	11.4
Other payables	27.1	26.0
Total trade and other payables	369.5	369.1

19. Deferred income

	As at 31 December 2019 £'m	31 December 2018 £'m
Due within one year	13.2	10.8
Due in more than one year	1.9	1.9
Total deferred income	15.1	12.7

Notes to the Financial Statements (continued)

20. Leases

Information about leases for which the Company is a lessee under IFRS 16 are presented below.

Right of use assets

The movement in the Company's right of use assets, by asset class, are shown below:

	Property £m	Hardware £m	Total £m
Cost			
As at 1 January 2018	-	-	-
Opening adjustment	9.7	2.6	12.3
Additions	0.2	-	0.2
As at 31 December 2018	9.9	2.6	12.5
Accumulated depreciation			
As at 1 January 2018	-	-	-
Charge for the year	1.2	0.8	2.0
As at 31 December 2018	1.2	0.8	2.0
Net book value as at 31 December 2018	8.7	1.8	10.5
Cost			
As at 1 January 2019	9.9	2.6	12.5
Additions	-	2.4	2.4
As at 31 December 2019	9.9	5.0	14.9
Accumulated depreciation			
As at 1 January 2019	1.2	0.8	2.0
Charge for the year	1.2	1.5	2.7
As at 31 December 2019	2.4	2.3	4.7
Net book value as at 31 December 2019	7.5	2.7	10.2

Lease liabilities

A movement reconciliation for the lease liabilities is shown below:

	As at 31 December 2019 £m	31 December 2018 £m
Opening lease liability	11.4	13.4
New leases during the year	2.4	-
Payments on lease liabilities	(3.2)	(2.5)
Interest on lease liability recognised in profit and loss	0.5	0.5
Closing lease liability	11.1	11.4

A maturity analysis table for the contractual undiscounted cash flows for the lease liabilities is shown below:

	As at	
	31 December 2019	31 December 2018
	£'m	£'m
Within one year	3.3	3.3
Within two to five years	8.3	8.5
Over five years	2.4	4.0
Total undiscounted lease liabilities	14.0	15.8

21. Financial commitments

The Company is committed to making the following payments in future years under other contracts in place as at the year end:

	As at	
	31 December 2019	31 December 2018
	£'m	£'m
IT transaction and support costs		
Within one year	10.5	7.1
Within two to five years	11.6	3.5
IT software development costs		
Within one year	0.4	1.0
Within two to five years	-	1.0
Computer hardware costs		
Within two to five years	-	0.3
Total other financial commitments	22.5	12.9

22. Ultimate controlling party

The Company's immediate parent company is Hastings (UK) Limited, whose registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW.

Hastings Group Holdings plc ('HGH') is the Company's ultimate parent company. The Group headed by HGH is the largest group in which the Financial Statements are consolidated into. The smallest group into which the Financial Statements are consolidated into is headed by Hastings Group Limited ('HGL'). The consolidated financial statements of HGH and HGL may be obtained from the Company's registered address at Conquest House, 32-34 Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW.

23. Related party transactions

The Company's subsidiaries are as follows:

Subsidiary	Country of incorporation	Class of shares held	% ownership	Principal activity
1066 Direct Limited	England and Wales	Ordinary	100%	Dormant
Advantage Insurance Services Limited	England and Wales	Ordinary	100%	Dormant
Hastings Direct Limited	England and Wales	Ordinary	100%	Dormant
Hastings Direct Accident Management Limited	England and Wales	Ordinary	100%	Dormant
People's Choice (Europe) Limited	England and Wales	Ordinary	100%	Dormant

All the above companies have a registered address of Conquest House, 32-34 Collington Avenue, Bexhill-On-Sea, East Sussex, TN39 3LW, UK.

During the year ended 31 December 2019 the Company had the following related party transactions, with entities within the HGH Group:

- Commission earned by the Company in the year in respect of policies sold that were underwritten by Advantage Insurance Company Limited ('AICL') was £94.2m (31 December 2018: £116.2m). Amounts owed to related companies include a balance relating to premiums on policies sold due to AICL of £301.5m (31 December 2018: £300.8m) relating to the net of premiums and IPT payable and commissions receivable on policies sold due to AICL and an intercompany payable balance of £13.3m (31 December 2018: £16.9m).
- Rent payable by the Company to Conquest House Limited during the year amounted to £0.4m (year ended 31 December 2018: £0.4m).
- At 31 December 2019 the Company had an intercompany balance receivable from Hastings Group Holdings plc of £1.1m (31 December 2018: payable of £0.7m).
- At 31 December 2019 the Company had an intercompany balance payable to Hastings Group (Finance) plc of £2.2m (31 December 2018: £0.5m).
- The Company provides an unsecured £50.0m revolving credit facility agreement to Hastings Group (Finance) plc ('HGF'). Loan amounts drawn down on the facility incur interest at a margin above LIBOR and the balance is repayable on demand. Under this agreement, the amount advanced to HGF as at 31 December 2019 was £21.1m (31 December 2018: £31.0m). The interest charged during the year was £0.7m (31 December 2018: £0.6m).

During the year ended 31 December 2019, the Company had the following related party transactions with entities within the Rand Merchant Investment Holdings Group, a company with significant influence over the Company's ultimate parent:

- Fees of £9.8m were charged by OUTsurance Shared Services Ltd for the provision of insurance intermediary support services (31 December 2018: £2.7m). At 31 December 2019 £1.3m was outstanding (31 December 2018: £nil).

On 4 December 2019, the Company made a loan of £228,975 to an employee who is a key management person of the Group, at an interest rate of 2.5%. The purpose of the loan is to allow the employee to participate in the Group's Capital Appreciation Plan (Note 17). At 31 December 2019, £229,399 remains receivable from the employee, of which £423 is interest accrued on the loan. The loan is to be repaid upon the date which the shares are transferred or disposed of, or the borrower's share award vests or lapses, whichever is earlier.

24. Dividends

Dividends amounting to £45.3m were paid during the year (2018: £61.7m), equivalent to £1.97 per share (2018: £2.68 per share).

25. Contingent liabilities

The Company is part of a Group, and the Group's legal entities are subject to review and enquiries by tax authorities in the UK and Gibraltar. The Group commenced discussion with HMRC in December 2016 regarding aspects of its business model and the allocation of certain elements of its profit between the Group's operating subsidiaries, HISL in the UK and AICL in Gibraltar. During the year, management engaged in correspondence and meetings with HMRC. Management has reviewed current and previous tax filings, and considered the nature of the ongoing enquiries, and does not consider it appropriate to provide for any additional tax due. The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities having taken into consideration any ongoing enquiries or reviews and based on guidance from professional firms. The final amounts paid may differ from the amounts provided depending on the ultimate resolution of such matters, and any changes to estimates or amounts payable in respect of prior periods are reported through adjustments relating to prior periods. In the event that the tax authorities do not ultimately accept the filed tax position, it is possible that the Company will have an additional tax liability. However, the ongoing nature of the enquiries means that it is inherently difficult to predict a range of potential outcomes with certainty. Based on the information received from HMRC to date, management does not believe that it is probable that any additional amounts will ultimately become payable. Further information in respect of the enquiries has therefore not been provided in accordance with IAS 37 on the grounds it is not practicable to do so.

26. Events after the reporting period

The corona virus ('COVID-19') global pandemic is continuing to develop and is causing unprecedented disruption to the UK and worldwide economy and society. The Company is closely monitoring the situation and is following the requirements and advice of the UK Government. Although the full extent is as yet unknown, the pandemic is not expected to significantly impact the structure or demand for motor and home insurance products in the UK over the medium term. Motor insurance remains a compulsory product for cars to be driven in the UK and home insurance is a requirement for homeowners that have a mortgage on their property. The impact of the pandemic in the UK is considered a non-adjusting event. Further details in respect of the risks associated with COVID-19 and actions taken can be found in the Strategic Report. Further details in respect of the Company's going concern assessment in light of these events can be found in Note 1 Basis of preparation.