Inceptum Insurance Company Limited

Annual Report and Financial Statements for the year ended 31 December 2020
Registered no: 3581552

Contents

Directors and advisers

Directors

T J Leggett	Non-Executive Chairman
P A Flamank	Non-Executive Director
A E Williams	Chief Financial Officer – resigned 31 December 2020
P S Donovan	Executive Director– resigned 31 December 2020
A Fridlyand	Non-Executive Director– resigned 31 December 2020
S Schaen	Non-Executive Director– resigned 31 December 2020
P R Corver	Executive Director – appointed 31 December 2020
R J Finney	Executive Director – appointed 31 December 2020
G D Jarvis	Executive Director – appointed 31 December 2020
M S Walker	Executive Director – appointed 31 December 2020

Secretary and registered office

R&Q Central Services Limited

71 Fenchurch Street
London EC3M 4BS

Bankers

Lloyds Bank Plc
PO Box 72
Bailey Drive
Gillingham Business Park
Gillingham
Kent ME8 0LS

Auditors

PKF Littlejohn LLP
15 Westferry Circus
Canary Wharf
London E14 4HD

Strategic report

The directors present their strategic report of Inceptum Insurance Company Limited for the year ended 31 December 2020.

Review of the business

Principal activities

The company's principal activities during the year continued to be the run-off of general insurance business, settling claims and expenses within the established reserves and settling claims fairly within the spirit of treating customers fairly (TCF) principles. Prior to moving into run-off, the principal activity of the company was underwriting general insurance business.

The company was placed into run-off in September 2009 and sold by the HSBC group to Syndicate Holding Corp. (SHC) on 30 September 2011. The company maintains a Scheme of Operations which shows that the company is well placed to continue as a going concern. As the company's sole business is the settlement of claims, it is the anticipated quantum and speed at which claims are settled that determines the length and therefore the cost of the run-off, as well as the future investment income that will be earned on funds prior to payment of claims and expenses.

Change of ownership

On the 31st December 2020 the company was acquired by Randal & Quilter II Holdings Limited.

Review of the business

The key financial and other performance indicators during the year were as follows:

	2020	2019
	£'000	£'000
Net claims paid	169	918
Technical account for general business	(1,245)	(1,077)
Investment return	354	350
(Loss) / Profit after tax	(891)	(588)
Shareholders' funds	16,543	17,436
Net technical provisions	4,573	2,796
Number of outstanding claims	52	90

The technical account returned an underwriting result of £1,045k loss because of a negative development of the remaining Motor PPO net exposure.

Investment return increased to £0.4m (2019: £0.04m) due to interest income of £0.4m in 2020 (2019: £0.4m), and falling yields generating unrealised gains.

The company has recorded a loss before tax for 2020 of £0.9m (2019: loss of £0.7m).

Strategic report (continued)

Review of the business (continued)

Net technical provisions increased by £1,777k due to increases to gross ultimate claims not being matched proportionally by reinsurance recoveries. The net technical reserves were reviewed by internal actuaries and the company commissioned an independent firm of external actuaries to undertake a peer review. The selected estimates are best estimates in the sense that they are not deliberately biased upwards or downwards. There are a number of factors that affect the uncertainty of these results (see note 3).

The number of outstanding claims of 52 as at 31 December 2020 includes 33 zero reserve claims, re-opened to be followed up for recoveries. Of the 90 as at 31 December 2019, 68 were such zero reserve claims.

Principal risks and uncertainties

The Audit and Risk Committee meets regularly and has a formal risk management process which is an integral part of its governance structure. The principal risks and uncertainties facing the company are broadly grouped as - insurance risk, market risk, liquidity risk, operational risk, credit risk and regulatory risk.

The company's approach to risk management seeks to identify risks facing the company, assess their potential impact, manage risk through mitigating actions (where appropriate), and report any failures in risk management to the Board.

Insurance risk

The company issued insurance contracts that effect the transfer of risk from the insured to the company. The principal risks assumed were motor related and may relate to property, liability, accident or other perils that may arise from an insurable event. The company is exposed to uncertainty surrounding the timing, frequency and severity of claims under the contracts.

The company uses several methods to assess and monitor reserve risk exposures both for individual types of risk insured and overall risks. These methods include scenario analyses and stress testing. There is a developing risk of Periodic Payment Orders ("PPOs") arising out of the changing market settlements, as interest rates remain low. The company has identified and is monitoring some existing cases that could become PPOs. Fraud, both internal and external, is a concern in the present environment. The company continues to monitor the possibility of fraud in its claims.

Market risk

The company is exposed to market risk through its financial assets. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts.

The most important component of market risk to the company is interest rate risk. The company does not operate in or hold assets or liabilities in currencies other than Pounds Sterling and does not hold financial assets comprising equity instruments or derivatives and is therefore not exposed to currency and equity price risks.

Strategic report (continued)

Principal risks and uncertainties (continued)

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Operational risk

Operational risk is the risk that errors, caused by people and/or inadequate processes or systems, lead to the company experiencing losses. The main risk in this regard is a failure in the company's control framework. The company's risk register, which details all of the current principal risks to the company, also identifies the key controls in response to these risks and the owners of those controls.

Credit risk

Credit risk is the risk that one party to a financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk relating to investments is managed by having guidelines that specify the maximum percentage of the portfolios that can be invested in any single counter-party. Credit risk relating to amounts recoverable from reinsurers is managed by monitoring the payments from reinsurers and the financial strength of such counterparties (for example through consideration of credit ratings).

Regulatory risk

Regulatory risk is the risk that a loss arises from a breach of a regulatory requirement and/or failure to respond to regulatory change. This could lead to censure and/or fines. The principal regulators to which the company has to report is the PRA and FCA. The compliance function monitors regulatory developments and ensures that the company responds accordingly.

Section 172(1) statement

The Board, having considered section 172 of the Companies Act 2006, noted that the Company has no employees, has a single shareholder and forms part of the Randall & Quilter Investment Holdings Ltd. Group.

The Directors' have previously stated that the Board did not manage the business by reference to any environmental or community performance indicators, as they consider that an insurance company does not have a large adverse impact upon the environment or wider community. The Board has also established a business ethos and risk management framework in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure continued regulatory compliance.

Strategic report (continued)
Section 172(1) statement (continued)

It is important to note that as a run-off reinsurer and a subsidiary of the R&Q Group, the Directors fulfil their duties through a governance framework that delegates day-to-day operations and decision making to employees of the wider R&Q Group. Nevertheless, the Directors' are satisfied that any decisions taken are adequately reviewed and challenged at regular Board Meetings.

The Board also aims to act responsibly and fairly in how it engages with its suppliers, policyholders and other key stakeholders, all of whom are integral to the successful run-off of the Company.

By order of the board

Gregg Jarvis
For and on behalf of
R&Q Central Services Limited
Company Secretary

Directors' report

The directors present their report and financial statements of the company covering the year ended 31 December 2020.

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 year. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Details of the directors

The company's directors are shown on page 2.

Results and dividends

Results for the year under review are as shown in the financial statements. Capital requirements are calculated in accordance with the Solvency II standard formula and an uplift calculated by actuaries to generate an own Economic Capital Assessment (OECA).

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and its exposure to insurance, financial and liquidity risk are described in the Strategic Report.

Directors' report (continued)

Going concern (continued)

The company has considerable financial resources and the directors believe that there are adequate resources to continue in operational existence for a period of at least 12 months from the date the financial statements are authorised for issue. The company has contracts for significant amounts of reinsurance for technical liabilities. These are monitored in terms of credit and concentration risk to ensure that they remain recoverable. Accordingly, the company continues to adopt the going concern basis in preparing the annual report and accounts.

The company has considered the ongoing impact of Covid 19 in making this assessment.

Employees

The company does not employ any staff. All services were provided by staff employed by Vibe Services Management Ltd ("VSML"), a related party. Following the sale, the Company's Administrative and management services are provided to the Company by a fellow subsidiary undertaking of Randall & Quilter Investment Holdings Ltd.

Charitable and political donations

No charitable or political donations were made during the year (2019: £Nil).

Subsequent Events

There are no subsequent events to report.

Future outlook

COVID-19

The Company's operations have not been materially impacted by the COVID-10 pandemic and it has continued to operate effectively during the period.

Other

The company is well placed to continue to administer claims on an orderly basis and in line with its Scheme of Operations.

Directors' report (continued)

Statement of disclosure of information to the auditors

So far as each person who was a director at the date approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware.

Having made enquiries with fellow directors and the auditor, each director has taken all steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

With effect from 7 April 2021, the Company appointed PKF Littlejohn LLP as the Independent Auditor, replacing Ernst & Young LLP. This decision follows the purchase of the Company by the Randall & Quilter II Holdings Limited and provides consistency of firms for the external audit function within the Group.

By order of the board

Gregg Jarvis
For and on behalf of
R&Q Central Services Limited
Company Secretary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INCEPTUM INSURANCE COMPANY LIMITED

Opinion

We have audited the financial statements of Inceptum Insurance Company Limited (the 'company') for the year ended 31 December 2020 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- a review of certain aspects of the Solvency and Financial Condition Report to confirm that the company continues to meet the regulatory solvency requirements; and
- a review of the of the company's plans and forecasts considering that the company is a solvent insurer in run-off and is not underwriting new insurance business.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INCEPTUM INSURANCE COMPANY LIMITED (Continued)

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. Materiality is considered to be the magnitude by which misstatements, including omissions, either individually or in aggregate, could reasonably be expected to influence the economic decisions of users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements. The application of these key considerations in the context of our audit gives rise to the following levels of materiality, the quantum and purpose of which is tabulated below.

Materiality measure	How we determined it	Key considerations and benchmarks	Quantum £
Materiality for the financial statements	Being 1% of shareholders' funds at 31 December 2020	As the company is in run-off we have referred to shareholders' funds as a measure of the available solvency capital resources of the company.	165,000

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment. This was set at £115,500.

We agreed with the those charged with governance that we would report all audit differences in excess of £8,250 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Our approach to the audit

Our audit approach was developed by obtaining an understanding of the company's activities, the key subjective judgements made by the directors, for example in respect of significant accounting estimates regarding the insurance contract provisions that involved making assumptions and considering future events that are inherently uncertain, and the overall control environment. Based on this understanding we assessed those aspects of the company's transactions and balances which were most likely to give rise to a material misstatement and were most susceptible to irregularities including fraud or error. Specifically, we identified what we considered to be key audit matters and planned our audit approach accordingly.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INCEPTUM INSURANCE COMPANY LIMITED (Continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	Description	How our scope addressed this matter
Valuation of gross and net provision for claims outstanding (Note 13) (Gross £87,507k; Net £4,319k, 2019: Gross £97,386k; Net £2,491k) Refer to: Accounting policies Section 3.1 and 4.2; and Note 13 of the Financial Statements	The insurance contract provisions are a material balance within the financial statements. Its determination has a significant impact on the financial result and there is a degree of complexity and judgement involved in determining the estimate. The majority of claims relate to motor injury to claimants with key assumptions applied relating to details of the amount and frequency of lump sum elements and periodical payments; life expectancy of the claimant; estimate of the likelihood that a Periodic Payment Order ('PPO') will be granted and the expected schedule of payments for potential PPOs; application of inflationary indices against aspects of the projected payments; and discounting projected future payments to present using an appropriate discount rate.	We evaluated whether the company's actuarial methodologies were consistent with those used generally in the industry and with prior periods. As historical claims data is a key input into the actuarial reserving process, we performed substantive testing to ensure the completeness, accuracy and reliability of the underlying data utilised by management, to support the actuarial valuation. Supported by our actuarial colleagues, we evaluated the reasonableness of management's methodology against market practice and challenged management's assumptions and their assessment of major sensitivities, based on our market knowledge and industry data where available. The main areas of judgement include the estimated cost of claims, the assumed future payment patterns adopted by management that form the basis of the discounting calculations and the discount rate applied. We also evaluated the company's reinsurance arrangements, by reviewing the underlying reinsurance contracts, to ensure the reinsurance element of the insurance contract provisions had been stated fairly. We performed a review of credit ratings of a proportion of company's reinsurance counterparties to assess the recoverability of reinsurance assets. Additionally, we also assessed counterparty concentration risk exposures. Based on the procedures we performed, we found that the value of the insurance contract provisions was supported by the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INCEPTUM INSURANCE COMPANY LIMITED (Continued)

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 to be audited 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INCEPTUM INSURANCE COMPANY LIMITED (Continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- We obtained an understanding of the company and the sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. The company is an insurance company and its principal activity is the transaction of general insurance in the UK. The company ceased accepting all new business and renewals in 2009 and is undertaking an orderly run-off of its activities. We obtained our understanding in this regard through discussions with management, industry research, and the application of cumulative audit knowledge and experience of the sector.
- We determined the principal laws and regulations relevant to the company in this regard to be those that relate to the financial reporting framework (FRS 102, FRS 103 and the Companies Act 2006) and the relevant tax compliance regulations in the UK. Our considerations of other laws and regulations that may have a direct effect on the financial statements included the prudential and supervisory requirements of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the company with those laws and regulations. These procedures included, but were not limited to, making enquiries of management and those responsible for legal and compliance matters. We also reviewed the correspondence between the company and UK regulatory bodies and reviewed the minutes of the Board to identify any indications of non-compliance.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INCEPTUM INSURANCE COMPANY LIMITED (Continued)

- We also identified the risks of material misstatement of the financial statements due to fraud. By meeting with management to understand where they considered there was susceptibility to fraud, and our knowledge of the insurance sector and where the risk was considered to be higher, we performed audit procedures to address these matters. In particular we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

Other matters which we are required to address

We were appointed by the company to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. This is the first period that we have audited. The current engagement partner has a further four years as Senior Statutory Auditor of this company before an engagement partner rotation is required.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Carmine Papa

Carmine Papa (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor
Date 24 September 2021

15 Westferry Circus
Canary Wharf
London E14 4HD

Income statement
For the year ended 31 December 2020

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Technical account - general business					
Gross premiums written	5	-		-	
Outward reinsurance premiums		100		(12)	
Net written premiums		100	100	(12)	(12)
Claims paid					
Gross amount		(3,995)		(2,267)	
Reinsurers' share		3,826		1,349	
Net of reinsurance	5	(169)		(918)	
Change in the provision for claims					
Gross amount		5,969		(17)	
Reinsurers' share		(6,945)		(194)	
Net of reinsurance	5	(976)		(211)	
Claims incurred, net of reinsurance			(1,145)		(1,129)
			(1,045)		(1,141)
Net operating expenses	6		(200)		64
Balance on the technical account - general business			(1,245)		(1,077)

Income statement
For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Non-technical account			
Balance on the technical account - general business		**(1,245)**	(1,077)
Investment income	9	**236**	359
Unrealised gain/(loss) on investments	9	**165**	34
Investment expenses and charges	9	**(47)**	(43)
(Loss)/Profit on ordinary activities before tax		**(891)**	(727)
Tax on loss/(profit) on ordinary activities	10	**-**	139
(Loss)/ Profit for the financial year attributable to members of the company		**(891)**	(588)

All amounts are in respect of continuing operations. However, as described in the Strategic report, the company ceased to effect new contracts of insurance from 2 September 2009.

There is no Statement of Comprehensive Income as the company has no recognised gains or losses other than the profit for the period.

Statement of financial position
As at 31 December 2020

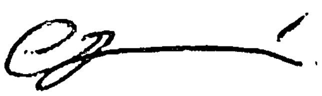
	Notes	2020 £'000	2019 £'000
Assets			
Investments			
Financial investments	*11*	**19,437**	19,537
Reinsurers' share of technical provisions			
Claims outstanding	*13*	**83,188**	94,895
Debtors			
Debtors arising out of reinsurance operations		**964**	391
Other debtors		**8**	3
Other assets			
Cash at bank and in hand		**927**	413
Prepayments and accrued income			
Prepaid operational expenses		**-**	-
Total assets		**104,524**	115,239

Statement of financial position
As at 31 December 2020

	Notes	2020 £'000	2019 £'000
Liabilities			
Shareholders' equity			
Called up share capital	12	**10,000**	10,000
Profit and loss account		**6,543**	7,436
Total capital and reserves		**16,543**	17,436
Technical provisions			
Provision for claims outstanding	13	**87,761**	97,691
Creditors			
Creditors arising out of direct insurance operations		**-**	-
Creditors arising out of reinsurance operations	15	**135**	96
Other creditors including taxation	15	**18**	15
		153	111
Accruals and deferred income			
Accrued expenditure		**67**	1
Total liabilities		**104,524**	115,239

These financial statements were approved by the Board of Directors on 6 July 2021

and were signed on its behalf by:



Gregg Jarvis
Director
6 July 2021

Statement of changes in equity
For the year ended 31 December 2020

	2020		
	Called up share capital	**Profit and loss account**	**Total**
	£'000	**£'000**	**£'000**
At 1 January	**10,000**	**7,436**	**17,436**
Total comprehensive loss for the year	**-**	**(891)**	**(891)**
At 31 December	**10,000**	**6,545**	**16,545**

	2019		
	Called up share capital	Profit and loss account	Total
	£'000	£'000	£'000
At 1 January	10,000	8,024	18,024
Total comprehensive income for the year	-	(588)	(588)
At 31 December	10,000	7,436	17,436

Notes to the financial statements

1 Statement of compliance

Inceptum Insurance Company Limited is a limited liability company incorporated in England. The Registered Office is 71 Fenchurch Street, London, EC3M 4BS. These financial statements cover those of the individual entity and are prepared as at 31 December 2020 and for the year ended 31 December 2020.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

The company has applied FRS 102 and FRS 103, both as issued in March 2018, which reflects the amendments made as part of the Triennial Review 2017. The Triennial Review amendments have had no material impact on the financial statements.

The company has taken advantage of the reduced disclosures available for qualifying entities under paragraph 1.12 of FRS 102, including the exemption from preparing a cash flow statement. The company is a qualifying entity under this exemption due to it being a wholly owned subsidiary of Randall & Quilter Investment Holdings Ltd., the ultimate parent Company, which fully consolidates the company's results into its Financial Statements.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

2 Basis of preparation

The financial statements for the year ended 31 December 2020 were approved for issue by the Board of Directors on 6 July 2021.

The financial statements are prepared in sterling which is the presentation and functional currency of the company and rounded to the nearest £'000.

The financial statements are prepared using the going concern basis of accounting.

The financial statements are prepared in compliance with Companies Act 2006.

As permitted by FRS 103, the company continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

As the company is a wholly owned subsidiary, advantage has been taken of the exemptions under FRS 102 Section 33 'Related Party Disclosures' not to disclose related party transactions within the group.

Notes to the financial statements (continued)

3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the company's key sources of estimation uncertainty:

3.1 Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of gross and reinsurance claims reported at the reporting date and for the expected ultimate cost of gross and reinsurance claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. The 'Ogden' rate is the discount rate used by the UK courts to determine lump sum awards in UK personal injury claims and the rate is currently -0.25%. Where the Ogden rate is not applied, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

For PPOs, we have assessed the estimated ultimate cost of each PPO on an individual claim basis which includes: age of claimant; date of loss; details of the amount and frequency of lump sum elements and periodical payments; payments made to date and the outstanding reserve on the claim; life expectancy of the claimant; estimated liability for the claim; and estimate of the likelihood that a PPO will be granted and the expected schedule of payments for potential PPOs. We project annual payments for lump sum elements and periodical. These payments are inflated at either Annual Survey of Hours and Earnings ("ASHE") or Retail Price Index ("RPI") depending on the type of benefit. Future claim payments are then discounted back to the valuation date to determine the present value of the expected payments associated with the PPO. The gross PPO uplift is calculated by differencing the discounted gross PPO claim

Notes to the financial statements (continued)

3.1 Insurance contract technical provisions (continued)

payments, probability weighted for the claimant's expected survival, to the gross incurred cost held. For potential PPO claims we have multiplied our estimated uplifts by a factor which represents a probability of the PPO being granted. For the reinsurance we have calculated the historical indexed retention and applied an uplift for future years based on the RPI and current indexation trend.

Similar judgements, estimates and assumptions are applied in allowing for reinsurance recoveries and a separate provision is recorded having regard to collectability. Consideration is given to the credit rating of the relevant reinsurers.

Further details are given in Note 16.

4 Significant accounting policies

4.1 Basis of accounting for underwriting activities

The accounts are prepared in accordance with the historical cost convention and on a going concern basis as referred to in detail in the Strategic Report. Periodic Payment Order (PPO) assets and liabilities are shown at their discounted value.

4.2 Claims

Claims incurred include all claims and claims settlement expense payments made in respect of the financial period and the movement in provision for outstanding claims and settlement of expenses, and includes claims incurred but not reported, net of salvage and subrogation recoveries.

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the reporting date, whether reported or not, together with related internal and external claims settlement expenses. Claims outstanding for which payments are expected to occur over many years are discounted and reported at the discounted value.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share having regard to collectability.

4.3 Claims handling expenses

Included in claims outstanding is the provision for the estimated internal cost of settling all claims incurred up to but not paid at the reporting date, whether reported or not.

4.4 Investment income

Movements in unrealised gains and losses on investments represent the difference between the fair value at the reporting date and their purchase price or their fair value at the last reporting date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Notes to the financial statements (continued)

4.4 Investment income (continued)

The company earns interest on fixed income instruments, cash and cash equivalents as well as gains on fixed income instruments. Interest is accrued up to the reporting date.

All investment income, including realised and unrealised gains and losses on investments, is reported in the non-technical account and is all in GBP.

4.5 Financial investments

The company has elected to apply the recognition and measurement provisions of FRS 102 sections 11 and 12 to account for all of its financial investments.

The company classifies its financial investments, consisting of listed investments and deposits with credit institutions, as financial assets at fair value through profit or loss as the company's documented investment strategy is to manage financial investments acquired on fair value basis. Financial assets are initially recognised at fair value.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date the company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Investments designated at fair value through profit or loss must meet the following criteria:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the profit and loss account.

4.6 Run-off provision

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The run-off provision has been established which consists of all estimated costs incurred in the administration of the run-off less projected investment returns. At the balance sheet date projected investment returns exceeds the costs of the run-off, therefore no provision is held (note 14.1).

Notes to the financial statements (continued)

4.7 Tax

4.7.1 Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date.

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Group relief for tax losses from other Group companies is applied against the current tax liabilities. Amounts expected to be paid to fellow group companies in respect of group relief are shown as intercompany balances.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

4.8 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity date of three months or less.

4.9 Fair value of financial assets

The company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.

- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.

- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

See Note 11 for details of financial instruments classified by fair value hierarchy.

Notes to the financial statements (continued)

4.10 Investment return

Interest income is recognised on a time proportionate basis taking into account effective interest yield.
Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

4.11 Reinsurance assets

The company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.
Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.
Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2019 or 2018.

Ceded reinsurance arrangements do not relieve the company from its obligations to policyholders.

4.12 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

4.13 Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

4.14 Foreign currencies

The company's functional and presentational currency is Sterling.

Notes to the financial statements (continued)

4.15 Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders.

5 Analysis by class of business

An analysis of the underwriting result before investment return is set out below:

2020 General business	**Gross premium**	**Gross claims incurred**	**Gross operating expenses**	**Reinsurance balance**	**Total**	**Net technical provisions**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Motor	-	1,974	(200)	(3,027)	(1,253)	4,574
Household	-	-	-	8	8	-
Total	-	1,974	(200)	(3,019)	(1,245)	4,574

2019 General business	Gross premium	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total	Net technical provisions
	£'000	£'000	£'000	£'000	£'000	£'000
Motor	-	(2,434)	52	1,286	(1,096)	2,796
Household	-	150	12	(143)	19	-
Total	-	(2,284)	64	1,143	(1,077)	2,796

The premium and loss reserves relate only to UK business. Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2020 (*commissions in respect of outward reinsurance 2019: £nil*).

Notes to the financial statements (continued)

6 Net operating expenses

	2020	2019
	£'000	£'000
Administrative expenses	**252**	227
Transfer admin provision to Claims handling provision	-	(259)
Less: claims handling expenses	**(52)**	(32)
Net operating expenses	**200**	(64)

Included in administrative expenses are:	**2020** **£'000**	2019 £'000
Auditor's remuneration		
Audit of financial accounts	**30**	41
Audit related assurance services	-	-
	30	41

7 Staff costs

Inceptum Insurance Company Limited does not employ any staff; all employees are employed by a related party. Costs recharged for salaries and wages including Directors were £171k (2019: £116k).

8 Remuneration of directors

Certain directors of the company are also directors of the fellow subsidiaries of the holding company. The total remuneration received by the directors has been apportioned between their services as directors of the company and their services as directors of the fellow subsidiary companies.

None of the directors were paid by the company in 2020 or 2019. All of the directors were paid by Vibe Services Management Limited, a former group company.

	2020	2019
	£'000	£'000
Remuneration	**11**	9
Company contributions to pension schemes	-	-

Notes to the financial statements (continued)

9 Investment return

	2020	2019
	£'000	£'000
Income from financial investments	471	544
Net loss on realisation of investments	(235)	(185)
Total investment income	236	359
Net unrealised gain / (loss) on investments	165	34
Investment expenses and charges	(47)	(43)
Total investment return	354	350

10 Taxation

10.1 Tax on profit on ordinary activities

The tax charge is made up as follows:

	2020	2019
	£'000	£'000
Current taxation		
UK corporation tax at 19.00%	-	(139)
Tax on profit on ordinary activities	-	(139)

10.2 Factors affecting the tax charge

The tax assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020	2019
	£'000	£'000
(Loss) / Profit on ordinary activities before tax	(891)	(727)
UK corporation tax at 19.00%	(169)	(139)
Tax losses carried forward	169	-
Total tax charge for the year	-	(139)

The Company has tax losses carried forward in the UK of £0.9m that are available indefinitely for offset against future taxable profits of the Company. No deferred tax asset has been recognised for these losses due to the uncertainty regarding its recoverability.

In the Finance Bill 2021, it was announced that the main rate of UK corporation tax would increase to 25% from April 2023.

The Company's 2020 results are taxed at 19%.

Notes to the financial statements (continued)

11 Financial investments

	Carrying value	**2020 Purchase price**	**Listed**
	£'000	**£'000**	**£'000**
Debt securities and other fixed income securities at fair value through profit and loss	**19,040**	**18,923**	**19,040**
Investment cash	**398**	**398**	**-**
	19,437	**19,321**	**19,040**

	Carrying value	2019 Purchase price	Listed
	£'000	£'000	£'000
Debt securities and other fixed income securities at fair value through profit and loss	19,494	19,510	19,494
Investment cash	43	43	-
	19,537	19,553	19,494

Notes to the financial statements (continued)

11 Financial investments (continued)

The following table shows the financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Debt securities and other fixed income securities	**-**	**19,040**	**-**	**19,040**

	2019			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	-	19,494	-	19,494

Included in the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

12 Share capital

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

Notes to the financial statements (continued)

13 Claims outstanding

	2020 Gross £'000	2020 Reinsurers' share £'000	2020 Net £'000
Undiscounted outstanding loss reserves	**90,738**	**90,220**	**518**
Undiscounted IBNR	**75,611**	**68,476**	**7,135**
Undiscounted claims outstanding	**166,349**	**158,696**	**7,653**
Discounting adjustment	**(78,842)**	**(75,508)**	**(3,334)**
	87,507	**83,188**	**4,319**
Claims handling provision	**254**	**-**	**254**
	87,761	**83,188**	**4,573**

	2019 Gross £'000	2019 Reinsurers' share £'000	2019 Net £'000
Undiscounted outstanding loss reserves	71,947	72,077	(130)
Undiscounted IBNR	78,823	74,665	4,158
Undiscounted claims outstanding	150,770	146,742	4,028
Discounting adjustment	(53,384)	(51,847)	(1,537)
	97,386	94,895	2,491
Claims handling provision	305	-	305
	97,691	94,895	2,796

The loss reserves relate only to UK business. They have been discounted by applying a yield of 2.0% (2019: 2.0%).

The £25.5m increase in the gross discounting adjustment between 2019 (£53,384k) and 2020 (£78,842k) year ends is attributable to the following movements in the 2020 calendar year:

- The reclassification of two previously undiscounted injury claims to (discounted) potential PPOs, increasing discounting credit by £34.5m
- Offset by £9m discounting unwind (reduction in discount credit) on the PPO claims as classified at year end 2019 (2019: gross £1,584k discount reduction).

Similarly, the £24.3m increase (£51,847k to £75,508k) in ceded discounting adjustment during 2020 is due to a £33m increase in ceded discounting credit due to the reclassification described above, offset by £8.7m of reduction in discounting credit on the PPOs as classified at year end 2019. The £8.7m reduction is the ceded analogue of the £9m gross unwind above (2019: ceded £2,339k discount reduction)

Notes to the financial statements (continued)

13 Claims outstanding (continued)

The net technical reserves were reviewed by internal actuaries and the company commissioned an independent firm of external actuaries to undertake a peer review. The projected results are intended to represent the expected value. The selected estimates are central estimates in the sense that they are not deliberately biased upwards or downwards. There are a number of factors that affect the uncertainty of these results.

The Periodical Payment Orders (PPOs) have stabilised with two previously known injury claims reclassified as potential PPOs, with limited net of reinsurance impact on reserves. The 'Ogden' rate is the discount rate used by the UK courts to determine lump sum awards in UK personal injury claims and the rate is currently -0.25% (2019: -0.25%).

The company discounts its liabilities for unpaid claims arising from PPOs, which is the bulk of outstanding unpaid claims. Non-PPO claims are not discounted.

Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is also used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range, which may be significant, of possible outcomes, taking account of all the uncertainties involved.

14 Other technical provisions

Other technical provisions for the current financial year are as shown below.

14.1 Run-off provision

A run-off provision is required for all estimated costs less projected investment returns. The investment returns are deemed to exceed these costs; hence no run-off provision was booked.

14.2 Breakdown of run-off provision

	2020	2019
	£'000	£'000
Total projected expenditure costs excluding claims handling costs	**(11,443)**	(8,551)
Total projected investment income surplus	**24,941**	19,064
	13,498	10,513

Services were provided by a former subsidiary company, Vibe Services Management Limited (VSML) prior to the sale to RQIH. There are no staff employed by the company as services are now provided by R&Q Central Services a fellow subsidiary company of the parent. The projected expenditure costs have been estimated based on the expected allocation of staff costs from RQIH, which is expected to diminish over time and estimates of specific costs e.g. IT systems and regulatory fees, specific to the company.

Notes to the financial statements (continued)

15 Creditors: amounts due within one year

	2020 £'000	2019 £'000
Arising out of reinsurance operations		
Due within one year		
Amounts due to reinsurers	**135**	96
	135	96
Other creditors		
Amounts due to group companies (see note 17)	-	-
Administration expense provision	-	-
Other creditors	**18**	15
	18	15

16 Risk management

16.1 Governance framework

The primary objective of the company's risk management strategy is to protect the company's shareholders from events that hinder the sustainable achievement of objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place.

The company has established a risk management function with clear terms of reference from the board of directors and its committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to committees and senior managers. The company has an articulated risk appetite which has been approved by the company's board. Actual performance is reviewed against the stated appetite using supporting metrics. Performance and risk exposure against tolerance levels is monitored regularly by management, which is then reported to the board.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies and associated strategy and business plans to ensure that they remain aligned. The company regularly undertakes an Own Risk and Solvency Assessment (ORSA) which is reviewed and approved by the board.

16.2 Capital management objectives, policies and approach

The company considers its own funds, as determined on a Solvency II basis, to represent what it manages as capital. The own funds effectively represent the share capital of the company plus the surplus of assets over liabilities, as determined on a Solvency II basis. The company's own funds are primarily invested in debt securities and other fixed income securities.

Notes to the financial statements (continued)

16.2 Capital management objectives, policies and approach (continued)

The company's risk management strategy is designed to ensure that policyholders are appropriately protected by ensuring that capital is held at suitable levels.

The company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital on a regular basis and taking appropriate actions to influence the capital position of the company in the light of changes in economic conditions and risk characteristics. Capital is defined as assets less liabilities.

The company is subject to capital requirements imposed by the Prudential Regulation Authority (PRA). Capital requirements are calculated in accordance with the Solvency II standard formula and an uplift is included by management to generate an Own Economic Capital Assessment (OECA) which is the level at which capital is held and is in excess of the minimum regulatory capital requirements.

Objectives when managing capital are:

- to comply with the insurance capital requirements required by the regulator, the Prudential Regulatory Authority (PRA); and
- to safeguard the company's ability to continue as a going concern so that it can continue to protect policyholders.

The solvency framework for insurers developed by the EU, referred to as 'Solvency II', is intended to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. Solvency II came into force from 1 January 2016. Under Solvency II, the Solvency Capital Requirement (SCR) replaces the ICA and ICG, and the Minimum Capital Requirement (MCR) is re-defined.

The company is required to hold regulatory capital at the greater of two measures, namely the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). Each of these measures is further described below:

- SCR: The quantity of capital that is intended to provide protection against unexpected losses, over the following year, up to the statistical level of a '1 in 200-year event'. This is a robust requirement that is designed so that insurers should be able to withstand all but the most severe of shocks. The company uses the 'Standard Formula' to calculate its SCR.

- MCR: Denotes a level below which policyholders would be exposed to an unacceptable level of risk. If a regulated firm breaches its MCR regulatory action is taken and the firm must submit a plan for approval, explaining how it will restore capital above the MCR within three months.

The company has complied with all regulatory solvency capital requirements throughout the period.

Notes to the financial statements (continued)

16.3 Insurance risk

The principal risk the company faces under insurance contracts is that the actual claims and benefit payments, or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the company is to ensure that sufficient reserves are available to cover these liabilities.

Another risk faced by the company is material adverse reserve development which could arise in respect of Periodical Payment Orders (PPOs), some of which are currently 'potential' and which may require the company to make regular payments for many years to come and the amount of which may be varied during the course of payment. Indexation will also affect the amount of reinsurance recoveries that may be claimed for PPOs as indexation inflates the amount of risk retained by the company over time with inflation.

The risk exposure is mitigated by using methods to assess and monitor reserve risk exposures, these include scenario analysis and stress testing. The company also purchased reinsurance as part of its risk mitigation programme. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The table below sets out the concentration of outstanding claims liabilities by class:

	2020			2019		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Motor	**87,761**	**83,188**	**4,573**	97,691	94,895	2,796
Household	**-**	**-**	**-**	-	-	-
Total	**87,761**	**83,188**	**4,573**	97,691	94,895	2,796

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Notes to the financial statements (continued)

16.3 Insurance risk (continued)

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates and delays in settlement.

Sensitivities

The claims liabilities are sensitive to key assumptions made and as part of the actuarial review, an assessment is made of the impact of a number of different scenarios on the gross and net reserves. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

2020 Actuarial review	**Increase in gross liabilities**	**Increase in net liabilities**	**Impact on profit before tax**
Scenario / assumption	**£'m**	**£'m**	**£'m**
-0.25% real discount rate	**5.3**	**0.3**	**(0.3)**
-0.5% real discount rate	**11.1**	**0.6**	**(0.5)**
100% PPO Probability	**3.8**	**0.6**	**(0.6)**
Standard ELT (English Life Tables) mortality (rather than impaired life mortality)	**26.3**	**1.4**	**(1.3)**

The table above shows sensitivities to movements on the assumptions used at 31 Dec 2020

2019 Actuarial review	Increase in gross liabilities	Increase in net liabilities	Impact on profit before tax
Scenario / assumption	**£'m**	**£'m**	**£'m**
-0.25% real discount rate	**4.8**	**0.1**	**(0.1)**
-0.5% real discount rate	**9.5**	**0.3**	**(0.3)**
100% PPO Probability	**1.3**	**0.1**	**(0.1)**
Standard ELT (English Life Tables) mortality (rather than impaired life mortality)	**11.1**	**0.7**	**(0.7)**

The table above shows sensitivities to movements on the assumptions used at 31 Dec 2019

Claims development table

FRS 103 requires the disclosure of historical claims development. The company's claims arose from policies written over ten years ago and to a large extent are fully developed. Consequently, the company believes that the production of a claims development table covering the last eight years is not meaningful or useful and that sensitivity analysis of reserving risk is more relevant. Accordingly, the company has not disclosed a claims development table.

Notes to the financial statements (continued)

16.4 Financial Risk

16.4.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the company's exposure to credit risk:

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the company. Compliance with the policy is monitored and exposures and breaches are reported to the Board. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segment (i.e. limits are set for investments and cash deposits and minimum credit ratings for investments that may be held).
- Management and monitoring of reinsurance assets so as to minimise the amount of outstanding recoveries.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position.

31 December 2020	**Neither past due nor impaired £'000**	**Past due £'000**	**Impaired £'000**	**Total £'000**
Financial investments - debt securities	**19,040**	-	-	**19,040**
Reinsurers' share of claims outstanding	**83,188**	-	-	**83,188**
Debtors arising out of reinsurance operations	**867**	**97**	-	**964**
Other debtors	**8**	-	-	**8**
Cash and cash equivalents	**1,324**	-	-	**1,324**
	104,420	**97**	-	**104,524**

Notes to the financial statements (continued)

16.4.1 Credit risk (continued)

31 December 2019	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Financial investments - debt securities	19,494	-	-	19,494
Reinsurers' share of claims outstanding	94,895	-	-	94,895
Debtors arising out of reinsurance operations	-	391	-	391
Intercompany debtors	3	-	-	3
Cash and cash equivalents	456	-	-	456
Prepayments	-	-	-	10
	114,848	391	-	115,239

Assets which are past due but not impaired have been in arrears for less than twelve months from the reporting date.

The table below provides information regarding the credit exposure of the company at 31 December 2020 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classed as speculative grade and have not been rated. Debtors, other than the amounts due from reinsurers, have been excluded from the table as these are not rated.

31 December 2020	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**Not rated £'000**	**Total £'000**
Financial investments - debt securities	**1,971**	**2,896**	**7,359**	**3,560**	***3,254**	**19,040**
Reinsurers share of claims outstanding	-	**67,258**	**15,021**	-	**909**	**83,188**
Debtors arising out of reinsurance operations	-	**716**	**217**	-	**31**	**964**
Cash and cash equivalents	-	-	**1,324**	-	-	**1,324**
	1,971	**70,870**	**23,921**	**3,560**	**4,194**	**104,516**

*Although not rated by Standard & Poor's, all securities are rated by Moody's and Fitch with a rating of the equivalent of BBB or higher.

Notes to the financial statements (continued)

16.4.1 Credit risk (continued)

31 December 2019	AAA £'000	AA £'000	A £'000	BBB £'000	Not rated £'000	Total £'000
Financial investments - debt securities	1,972	4,154	6,597	1,979	*4,792	19,494
Reinsurers share of claims outstanding	-	75,821	17,502	1,566	6	94,895
Debtors arising out of reinsurance operations	-	246	135	7	3	391
Cash and cash equivalents	-	-	456	-	-	456
	1,972	80,221	24,690	3,552	4,801	115,236

The table below provides information regarding the concentration risk related to the credit exposure of the company at 31 December 2020. This is in respect of reinsurers share of claims outstanding. The numbers of reinsurers and total amount receivable from all reinsurers are grouped into ranges of amount receivable.

31 December 2020	**£10m and above**	**£5m-£10m**	**£1m - £5m**	**<£1m**	**Total**
Number of reinsurers	**4**	**1**	**6**	**30**	**41**
Reinsurers share of claims outstanding £'000	**51,310**	**7,056**	**22,504**	**2,318**	**83,188**

31 December 2019	£10m and above	£5m-£10m	£1m - £5m	<£1m	Total
Number of reinsurers	4	3	6	22	35
Reinsurers share of claims outstanding £'000	56,760	20,126	17,805	204	94,895

16.4.2 Liquidity risk

Liquidity risk is the risk that an insurance company will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the company's exposure to liquidity risk:

Notes to the financial statements (continued)

16.4.2 Liquidity risk (continued)

A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the Board. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.
- Contingency funding plans are set to meet emergency funding in the event of a large demand on cash.

Maturity profiles

The table below summarises the maturity profile of the company's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

31 December 2020	**Up to a year £'000**	**1-2 years £'000**	**2-5 years £'000**	**6-10 years £'000**	**Over 10 years £'000**	**Total £'000**
Outstanding claims liabilities (undiscounted)	**3,895**	**1,953**	**5,573**	**9,086**	**145,842**	**166,349**
Creditors	**153**	**-**	**-**	**-**	**-**	**153**
	4,048	**1,953**	**5,573**	**9,086**	**145,842**	**166,502**

31 December 2019	Up to a year £'000	1-2 years £'000	2-5 years £'000	6-10 years £'000	Over 10 years £'000	Total £'000
Outstanding claims liabilities (undiscounted)	9,667	3,891	5,586	16,419	115,207	150,770
Creditors	111	-	-	-	-	111
	9,778	3,891	5,586	16,419	115,207	150,881

Notes to the financial statements (continued)

16.4.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

a) Currency risk
b) Interest rate risk
c) Equity price risk

The following policies and procedures are in place to mitigate the company's exposure to market risk:

- The company shall hold a well-diversified, low risk portfolio of assets, achieving rates of return measured against defined benchmark indices.
- The company keeps asset durations short.
- The company's investment portfolio is managed by a highly experienced investment manager within agreed guidelines.

a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. There is virtually no currency risk in the company.

b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The analysis below is performed for reasonably possible movement in interest rates with all other variables held constant, showing the impact on profit before tax and equity of the effects of changes in interest rates on fixed rate financial assets and liabilities.

	2020		2019	
	Impact on profit before tax	**Impact on equity**	Impact on profit before tax	Impact on equity
	£'000		£'000	
Change in variables				
+ 50 basis points	**(138)**	**(112)**	(177)	(143)
- 50 basis points	**138**	**112**	177	143

Notes to the financial statements (continued)

16.4.3 Market risk (continued)

The impact of changes in interest rates on insurance liabilities is shown in note 16.3.

c) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Currently no equity investments are held.

17 Related party transactions

Advantage has been taken of the exemption provided in FRS 102 from disclosing details of transactions with Randall & Quilter Investment Holdings Ltd. and its wholly owned subsidiary undertakings. No other related party transactions are contained in the Financial Statements.

18 Capital commitments

There were no capital commitments at the end of the year (2019: £Nil).

19 Ultimate parent company

The Company's immediate Parent Company is Randall & Quilter II Holdings Ltd which is registered in England and Wales.

Consolidated Financial Statements are prepared by the ultimate parent undertaking, Randall & Quilter Investment Holdings Ltd., a company registered in Bermuda, and can be obtained from 71 Fenchurch Street, London, EC3M 4BS.

It is the opinion of the Directors that there is no ultimate controlling party.

20 Subsequent Events

There are no subsequent events to report