Registered number: 06608316

# British Gas Insurance Limited

**Annual Report and Financial Statements**
**For the year ended 31 December 2020**

**British Gas Insurance Limited**

## Contents

## Strategic Report for the Year Ended 31 December 2020

The Directors present their Strategic Report for British Gas Insurance Limited ("BGIL" or "the Company") for the year ended 31 December 2020.

**Principal activity**
The Company continued to underwrite general insurance risks in the UK covering the breakdown of domestic boilers and central heating systems, plumbing and drains, and electrical and gas appliances. It is authorised to carry out its regulated activities by the Prudential Regulation Authority ("PRA") and is regulated by the PRA and the Financial Conduct Authority ("FCA").

**Section 172 (1) statement**
In promoting the success of the Company, the Directors must also consider the interests of stakeholders and the other matters required by section 172(1) (a) to (f) of the Companies Act 2006 ("the Act"). This Section 172 Statement describes how the Directors have taken into account wider stakeholders in their decision making and also the principal decisions taken during the year. Whilst BGIL is an independent subsidiary of Centrica plc, BGIL activity supports the wider strategy of British Gas and the Centrica Group ("the Group"). Where appropriate, for example in matters of long-term strategy, decision making is aligned with that of the parent company Board, ensuring that BGIL stakeholders have been rigorously considered.

**General confirmation of Directors' duties**
Directors are fully aware of and understand their statutory duties under the Act. The Board has a clear framework for determining the matters within its remit and has approved Terms of Reference for the matters delegated to its Committees. Day-to-day authority is delegated to executives and the Directors engage with management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held periodically where the Directors consider the Company's activities and make decisions. At Board meetings, the Directors review financial and operational performance, business strategy, key risks, stakeholder-related matters, governance, and legal and regulatory compliance. For example, the Company's capital management policy and plan. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board. When making decisions, each Director ensures that they act in the way they consider, in good faith, would most likely promote the Company's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to section 172(1) (a) to (f) as described below.

(a)The likely consequences of any decision in the long term

The Directors understand BGIL's business and the evolving environment in which it operates, including the challenges of a highly competitive marketplace, regulatory intervention and climate change. The Directors recognise how our operations are viewed by different stakeholders and that some decisions they take may not align with all stakeholder interests.

The Directors took decisions during 2020 that they believed would best promote Centrica's long-term success for the benefit of its stakeholders as a whole. For instance, the Board had oversight of significant British Gas restructuring (where it applied to BGIL and British Gas Services Limited ("BGSL") ) which was aimed at creating a simpler, leaner business focused on delivery for customers, and agreed the appointment of new regulatory role holders under the Solvency II regime. Furthermore, in light of the uncertainty arising from the Covid-19 pandemic the Directors sought additional assurance (including additional stress testing and scenario analysis) prior to payment of dividends, being mindful of enhanced regulatory guidance. Dividend decisions were made taking into full consideration the need to ensure the long-term sustainability of the business for its customers and policyholders.

Further reference to operations and regulatory relationships is included in the review of the business section below.

(b)The interests of the Company's employees

The Directors recognise that employees are fundamental to the future growth and success of the Company. That success depends on looking after our employees and having consideration for employees of our intermediary BGSL including application of the Group's diversity policy and strategy. The Board is mindful that decisions and oversight often have to balance the differing needs of stakeholders, for example employee safety considerations during the Covid-19 pandemic including home working capability and making only essential visits to customers' homes, balanced against ensuring continued customer product value. The decisions taken by the Board were designed to prioritise and protect the health and safety of our employees and customers in the face of the global public health risk. In 2020, the Board was kept well informed during the negotiations to modernise employee terms and conditions.

(c)The need to foster the Company's business relationships with suppliers, customers and others

The Directors recognise the benefits of engaging with a broad range of stakeholders and developing and delivering our strategy depends on building and maintaining constructive relationships with them all.

## Strategic Report for the Year Ended 31 December 2020 (continued)

**General confirmation of Directors' duties (continued)**

The Board's actions have ensured that, wherever possible, BGIL policyholders (customers) had heating and hot water, even at times of maximum restrictions, while the health and safety of both employees and customers remained a priority.

Given the challenges presented by the Covid-19 pandemic, the Board requested that management assess the value for money that customers received during this period. With customers spending significantly more time at home than in previous years, the Board was satisfied that the relevance and security of products had increased. Pricing metrics, designed to track product value for money, also demonstrated a very stable performance across the key metrics through 2020 including claims frequency and retention.

(d)The impact of the Company's operations on the community and the environment

The Directors appreciate that collaboration with charities and community groups helps to create stronger communities and provides insights that enable the Board to understand BGIL's impact on the community and environment, and the consequences of its decisions in the long term. For that reason, BGIL, through its intermediary BGSL, have given back to the community through the Trussell Trust in helping to meet the rapid rise in demand for foodbanks throughout the pandemic. Furthermore, in consideration of the community and its customer-centric ethos, BGIL supported the implementation of payment holidays of up to three months for customers in financial difficulty during the pandemic.

(e)The desirability of the Company maintaining a reputation for high standards of business conduct

The Board considers Centrica Group's "Our Code" code of conduct when reviewing whistleblowing and conflicts of interest, and through its fraud policies. All Group employees are subject to this code. In addition, our business strategy is underpinned by a conduct risk framework that seeks to put the customer at the heart of decision making. Together, these drive a clear commitment to continuous improvement in customer service levels, seeking to solve more effectively and efficiently for our customers.

(f)The need to act fairly as between members of the Company

After weighing up all relevant factors, the Directors consider which course of action best promotes the long-term success of the Company, taking into consideration the impact on stakeholders. In doing so, the Directors act fairly as between the Company's members. However, the Directors are not required to balance the Company's interests with those of other stakeholders, and this can sometimes mean that certain stakeholder interests may not be fully aligned.

**Culture**

BGIL's culture is set by the Group and embedded in all we do. Further information on our culture can be found on page 45 of the Group's Annual Report and Accounts 2020.

**Review of the business**

All business continued to be introduced to the Company by BGSL which is an insurance intermediary directly authorised and regulated by the FCA. All claims fulfilment and handling activities also continued to be outsourced to BGSL.

Through a services agreement with BGSL, the Company monitors business acquisition, claims fulfilment and claims handling activities as well as the quality of customer service and the levels of customer complaints. The Company also applies the customer conduct principles of the FCA in its decision-making process and oversees adherence to those principles by BGSL.

New product offerings are introduced following appropriate market testing.

**Stakeholder engagement**

Proactive engagement remains a central focus for the Group, which ensures the Directors have regard to the matters set out in Section 172 (1) (a) to (f) of the Act. Further information on stakeholder engagement can be found on pages 22-27 of the Group's Annual Report and Accounts 2020. Engaging with stakeholders delivers better outcomes for society, and for the business. It is fundamental to the Company's long-term success.

**Results and performance**

Profit on ordinary activities before taxation for the year was £99.5m (2019: £85.6m) and profit for the financial year was £80.6m (2019: £69.3m).

The statement of financial position of the Company is presented on page 20. Total shareholder's funds at 31 December 2020 decreased in the year to £106.8m (2019: £109.2m) following payment of dividends of £39m on 23 June 2020 and £44m on 22 December 2020 (2019 dividends: £83m).

The number of policies in force decreased by 2.3% in the year to 7,577,000 at 31 December 2020 (2019: 7,758,000). A small decline is forecast for 2021. Gross premiums written were 3.1% lower than 2019 due in part

## Strategic Report for the Year Ended 31 December 2020 (continued)

### Results and performance (continued)

to the reduced number of policies in force and partly reflecting the move by customers towards lower priced policies with an excess.

The combined operating ratio ("COR") is the ratio of claims incurred and operating expenses to premiums earned. The 2020 COR was 1.7% lower than 2019 at 90.0% reflecting warmer weather resulting in reduced boiler and central heating claims. There was a further benefit as the business changed the basis on which it pays BGSL for fulfilling a claim, reducing the amount paid to BGSL. The timing of policy renewals incorporating this change benefitted the 2020 results, partially offset by increased commission costs payable to BGSL. Some increase in profit is also due to the deferral of non-essential visits from 2020 to 2021 as a result of reduced access to customers' homes during periods of lockdown. While the work will be fulfilled largely within customer contract periods, the lower level of service visit activity reduced claims costs in 2020, with a similar increase in costs expected in 2021 as the rescheduled activity is completed

Under the terms of a contractual arrangement, profit commission is payable to BGSL based on the profitability of business introduced to the Company. In 2020 those profitability thresholds were met and commission of £70.0m was payable under the contract (2019: £31.4m). The significant increase in profit commission reflects principally the reduced number of service visits completed which reduced the COR.

No reinsurance contracts were entered into during the current or prior years.

The adverse impact of post-Brexit trading is expected to be very limited as the Company does not export products and services to EU countries nor does it have a material exposure to currency or interest rate risks.

### Key performance indicators (KPIs)

The Company's key performance indicators are:

| | 2020 | 2019 |
|---|---|---|
| Profit on ordinary activities before taxation (£m) | **£99.5** | £85.6 |
| Gross premiums written (£m) | **£966** | £998 |
| Policies in force at 31 December (000's) | **7,577** | 7,758 |
| Combined operating ratio | **90.0%** | 91.7% |

Policies in force represent individual policies of cover taken out by customers with the exception of kitchen appliance cover which represent individual appliances covered for the same customer.

Key performance indicators are monitored against plans and forecasts regularly throughout the year.

In addition to key performance indicators, the business regularly monitors other operational metrics such as conduct and customer service and activities outsourced to BGSL.

### Capital management

A standard condition of authorisation as an insurer is continuing compliance with the PRA's capital regime. The Company's capital management policy and plan ("CMPP") is subject to review and approval by the Board and the key elements are:

1. Compliance with all capital obligations set by regulatory authorities.
2. Reporting processes that provide relevant and timely capital information to management and the Board.
3. An effective early warning system that anticipates potential breaches of compliance.
4. A medium-term capital plan, updated to meet changing circumstances.
5. A capital management and planning process integrated with dividend distribution policy.

The Board is accountable for ensuring regulatory requirements are met, in particular the Company's solvency capital requirement ("SCR"), minimum capital requirement ("MCR") and margins of solvency above regulatory minimums agreed by the Board. Determination of the SCR is informed by the Company's Solvency II partial internal model.

Particular attention is paid to ensure capital is not encumbered by agreements, connected transactions or group structural arrangements that would undermine its efficacy. A medium-term capital management plan forms part of the Company's planning and forecasting process, embedded into approved timelines, management reviews and Board approvals.

## Strategic Report for the Year Ended 31 December 2020 (continued)

**Capital management (continued)**

A dividend distribution policy is approved annually by the Board taking account of capital requirements. To provide the Board with additional assurance that levels of capital would remain robust under adverse conditions caused by Covid-19, further stress tests were performed in 2020.

At 31 December 2020, the Company had, and it continues to have, sufficient capital to meet its regulatory obligations without recourse to its parent undertaking GB Gas Holdings Limited or to Centrica plc, its ultimate parent company.

The partial internal model covers most categories of risk to which the Company is exposed and provides an appropriate view of the SCR. The Board has approved a prudent margin that requires capital to be maintained at a level at least 35% above the SCR.

**Future developments**

The Company will retain its core focus on UK insurance products covering breakdowns of domestic boilers and central heating systems, plumbing and drains, and electrical appliances as well as 'health checks' of products through service visits. The core strategy will continue to be an efficient, high quality underwriting vehicle for core group insurance products and the Company will look to develop additional distribution channels including partnerships to maintain and grow the business.

**Principal risks and uncertainties**

*Risk management*

The Company has a robust risk management system in place to identify, measure, monitor, manage and report on the risks to its business strategy and delivery of its objectives, as part of a 'three lines of defence' governance model. This ensures appropriate segregation of risk ownership, oversight and assurance responsibilities. The three lines are as follows:

First line: the Company's first line of defence is led by the Chief Executive Officer who is supported by the senior leadership team. The first line teams are required to identify, assess, manage and report on the risk profile on a current and forward-looking basis. Sound risk management tools, practices and knowledge facilitate informed decision making in accordance with the Enterprise Risk Management Framework and in particular the risk appetite.

Second line: the second line team protects and enables the business to achieve its objectives by providing advice and oversight of risk taking and risk management, while developing and delivering the relevant tools and methodologies to support business risk taking.

Third line: independent and objective assurance of the effectiveness of risk management and internal controls through Internal Audit.

Risks are recorded in the Company's risk register and rated in terms of impact on the business and probability of occurrence. The risk review process includes identification of emerging risks and assessment of the effectiveness of mitigation controls. Regular monitoring is carried out by the executive management team and reported to the Risk Committee and Board.

The Company has in place an effective and proportionate risk committee governance structure and escalation path which ensures that any material changes to the risk profile are identified on a timely basis and actioned as appropriate. In particular, a Risk Committee is chaired by a non-executive Director which facilitates the formal reporting and escalation of key matters that require the Board's attention. The Committee reviews performance in relation to financial, operational and conduct risk while the Board has responsibility for strategic matters relating to conduct.

The principal risks to the Company are set out below:

The following four risks are evaluated on a modular basis and used to inform the Company's SCR through the approved Partial Internal Model.

*Insurance risk*

The Company's portfolio comprises a large number of contracts with small individual values underwritten in the Solvency II "assistance" class of business, which results in a high volume of claims, each of relatively low unit cost. The characteristics of the business combined with monitoring of insurance risk scenarios confirm that

## Strategic Report for the Year Ended 31 December 2020 (continued)

### Principal risks and uncertainties (continued)

material concentrations or aggregations of risk are relatively remote. The most significant insurance risk is an extreme cold weather event across the UK for an extended period which has the propensity to increase claims frequencies materially. The Company operates an internal model for insurance risk to regularly assess the capital requirements of a 1-in-200 year weather event and it retains capital to cover such an eventuality.

Management regularly assesses insurance risk sensitivities of which the following are the most significant but has concluded neither would represent a material impact on the Company's profits.

| Estimated reduction in profit before tax: | £m |
|---|---|
| One percentage point increase in breakdown frequency | 7.7 |
| One percent increase in average breakdown cost | 2.4 |

*Operational risk*
The main component of operational risk is conduct risk arising from BGIL's relationship with BGSL. BGSL introduces business to BGIL and therefore undertakes sales & marketing, product design and retail pricing. In addition, some material services are outsourced by BGIL to BGSL including claims handling & fulfilment and policy administration. Under the terms of the services agreement, some complaints handling activity is undertaken directly by BGSL and some is outsourced to BGSL from BGIL. Through effective governance of risks and controls management, the Company has processes in place to actively monitor and manage these specific risks and resources across BGSL to ensure they are focused on delivering successful customer outcomes. For Solvency II, operational risk is assessed using an internal model.

The services agreement between the two companies details the activities undertaken by each entity and limits the Company's financial exposure in the event BGSL fails to adequately perform the activities for which it is responsible.

*Counterparty default risk*
The principal source of counterparty default risk arises in the relationship with BGSL which provides services to the Company. Exposure arises in the form of amounts receivable from BGSL being the net of customer premiums collected but not yet paid to the Company set against payments due for the services it provides. For Solvency II, the risk is assessed using an internal model.

*Market risk*
The Company adopts a risk-averse investment strategy principally investing in high grade, short duration, sterling denominated money market funds and is exposed to the risk of changing market interest rates on such instruments. The Standard Formula rather than an internal model is used to determine market risk capital requirements for Solvency II as this produces an appropriate level of capital requirement for the Company's investment portfolio.

*Climate Risk*
The Bank of England has identified two key risks relating to climate change:

Physical risks such as extreme weather events:
- BGIL includes a 1-in-200 cold weather scenario in its SCR and considers more extreme weather events as part of its stress and scenario testing.

Transition risks arising from a move to a greener economy which could lead to a large fall in asset values in some sectors, or a higher cost of doing business:
- There is a risk to the market within which BGIL operates, from a potential move from gas to other forms of energy such as electrification.
- BGIL invests in short duration, high-quality fixed interest securities and deposit-based investments so is less exposed to transition risks through its asset strategy.

Climate change is an area of regulatory focus and the PRA have introduced new requirements with regard to managing the financial effects of climate risk that must be met by the end of 2021. BGIL has a documented plan in place to fulfil the requirements.

## Strategic Report for the Year Ended 31 December 2020 (continued)

**Principal risks and uncertainties (continued)**

*Coronavirus (Covid-19)*
In March 2020 the World Health Organisation declared a global pandemic (Covid-19) which resulted in the Coronavirus Act 2020 in the UK, placing wide-ranging restrictions on freedom of movement.

Subsequent to the financial reporting date of 31 December 2020, there have been further lockdowns with restrictions on freedom of movement across the country. Following the deployment of the vaccination programme the UK government published "Covid-19 Response – Spring 2021" on 22 February 2021 which sets out the roadmap out of lockdown, with restrictions easing in England from 8 March 2021. In Wales and Scotland, restrictions have also eased.

The Company continues to be focused on looking after the health and safety of employees and customers. This includes following all advice from the government and relevant health organisations. Depending on prevailing circumstances, the fulfilment of non-essential visits may be deferred, but service engineers continue to support core insurance activities including attending emergencies where a customer has no heating or hot water.

The Company's operational resilience is supported by Centrica's Global Crisis Management team, which is operating a Pandemic Management Framework supported by existing business continuity plans. The Company's executive team meets frequently to review response plans and assess the latest government policy and guidance. There is also regular engagement with the BGIL Board as well as industry regulators. While the situation is continually evolving, risks are being monitored and the business remains focused on ensuring continuity of service while supporting customers and employees.

Covid-19 has caused widespread disruption to businesses and economic activity. This has caused fluctuations in UK and global financial markets. Assets are invested in sterling denominated short-term money market funds so have been resilient to these movements. Technical provisions are very short term in nature and are not materially impacted by interest rate movements. The Company holds capital to cover a 1-in-200 risk event as well as additional capital above the regulatory solvency capital requirement in order to be resilient in a range of stress scenarios. As such, solvency and liquidity positions remain robust.

**Financial risk management**

The Company carries out a variety of risk monitoring and risk mitigation activities including an evaluation of exposure to financial risks:

*Tax risk*
The Company monitors tax risk which could take the form of increases in corporation tax or insurance premium tax rates. While such changes are not in the Company's control, tax risk is effectively managed through our pricing policy, to achieve target returns and capital management policy, to maintain regulatory capital requirements plus Board approved solvency margin.

*Price risk*
For the range of products sold, the Company receives from BGSL a set of contractually agreed premium amounts net of commission. Fixed unit payments are also contractually agreed with BGSL for the fulfilment of claims, claims handling and service visits, minimising the Company's exposure to fluctuations in unit costs that would otherwise occur.

*Currency risk*
The Company only conducts business in the UK and all premiums, claims and expenses are denominated in sterling. All insurance assets and liabilities have an underlying sterling currency base.

The Board has approved an investment risk policy that limits permitted investments to sterling denominated securities only.

Consequently, the Company has no exposure to fluctuations in foreign currency rates of exchange.

*Counterparty and credit risk*
Investment counterparties are monitored to ensure individual exposure concentrations in the portfolio are appropriate. Management also reviews counterparty limits within the overall permissions set out in the investment risk policy, supported by the Centrica treasury department. Excluding UK Government gilts, at 31 December 2020

## Strategic Report for the Year Ended 31 December 2020 (continued)

### Financial risk management (continued)

the largest exposure to a single counterparty was £17.5m (31 December 2019: £12.1m) which was of appropriate rating quality to be included in the money market funds.

The Company's investment risk policy sets clear guidelines on permissible investments that meet the objectives of low risk and high liquidity. The policy does not permit investment in equities or properties and also specifies that all invested assets must have a minimum long-term credit rating of A- ("A minus") and that at least 50% of the portfolio must be rated AA- ("AA minus") or better; the minimum rating of short-term money market and other funds is AA. The policy is reviewed by the Risk Committee at least annually.

All of the Company's financial investments at 31 December 2020 (£234.8m) and 31 December 2019 (£168.6m) were held in short-term money market funds. The funds have AAA ratings.

The Company does not use derivatives or similar financial instruments.

*Liquidity risk*
The Company's liquidity requirements are managed to ensure that sufficient cash is available to meet planned operational and capital needs. The investment risk policy includes the requirement that at least 20% of the portfolio must be accessible within one month, the maximum duration of any counterparty in the portfolio must not exceed two years and the weighted average duration must be no more than one year. At 31 December 2020, the weighted average maturity ("WAM") of the Company's investment portfolio was 45 days (31 December 2019: 41 days) and the weighted average life ("WAL") was 58 days (31 December 2019: 70 days).

The amount invested by the Company in each money market fund represents a small percentage of the total fund. Should the Company decide to liquidate its investments at short notice, such action would not have a material impact on the funds' cash flows, which protects the Company's liquidity risk.

*Interest rate risk*
The Company has interest earning assets in the form of investments and cash which are exposed to fluctuations in market rates of interest. The policy applied throughout 2020 was to invest only in short-term money market funds which earn a relatively low rate of return; the cash flows of the business are not materially impacted by variations in market rates of interest.

The Company has no interest-bearing liabilities.

This strategic report was approved by the Board on 7 April 2021.

Samantha Hood

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for and on behalf of Centrica Secretaries Limited

**Company Secretary**

Company registered in England and Wales, number: 06608316
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

# Directors' Report for the Year Ended 31 December 2020

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Information relating to future developments and financial risk management has been disclosed in the Strategic Report on pages 3 to 9.

**Dividends**

An interim dividend payment of £39,000,000 to the Company's immediate parent undertaking GB Gas Holdings Limited was approved on 30 April 2020 and paid on 23 June 2020 and a second interim payment of £44,000,000 was approved on 3 December 2020 and paid on 22 December 2020 (2019 interim dividends: £83,000,000).

The Directors who held office during the year and up to the date of signing the financial statements were:

M J Bateman (Managing Director, British Gas)
A H Bowe (Non-Executive)
E M Catchpole (Non-Executive)
D J Hindley (Non-Executive)
C L McLeod (Chief Financial Officer)
R A Phipps (Non-Executive Chairman)
S R Vann (Non-Executive)

D M Kirwan (Chief Executive, UK Home) (resigned 31 August 2020)
A L Tavaziva (Managing Director, UK Customer Operations) (resigned 10 June 2020)

**Directors' and officers' liability**

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review. The insurance does not provide cover in the event the Director is proved to have acted fraudulently.

**Going Concern**

The financial statements have been prepared on a going concern basis. Covid-19 has caused widespread disruption to businesses and economic activity including fluctuations in UK and global financial markets. The Company's assets are invested in sterling denominated short-term money market funds so have been resilient to these movements. Technical provisions are very short term in nature and are not expected to be affected by interest rate movements. The Company holds capital to cover a 1-in-200 operational risk event as well as additional capital above the regulatory solvency capital requirement in order to be resilient to a range of stress scenarios. As such, solvency and liquidity positions remain robust.

The longer-term effects of the virus on the UK economy remain uncertain, but stress tests of the impact on the Company conclude that BGIL's capital and liquidity position will remain within regulatory requirements and risk appetite. Post balance sheet events note 19 refers to assessments of the Company's financial position in light of the Coronavirus (Covid-19) pandemic.

The ultimate parent company Centrica plc currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue.

**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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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:

## Directors' Report for the Year Ended 31 December 2020 (continued)

**Statement of Directors' responsibilities (continued)**

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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.

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

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company auditor is aware of that information.

**Reappointment of auditor**

The external auditor has confirmed their independence as auditor of the Company.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

The Directors' report was approved by the Board on 7 April 2021

Samantha Hood

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for and on behalf of Centrica Secretaries Limited

**Company Secretary**

Company registered in England and Wales, number: 06608316
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

# Independent Auditor's Report to the Members of British Gas Insurance Limited

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of British Gas Insurance Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### 2. 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

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

### 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matter that we identified in the current year was:<br>• Revenue recognition for earned premium.<br><br>Within this report, key audit matters are identified as follows:<br>Newly identified<br>Increased level of risk<br>Similar level of risk<br>Decreased level of risk |
| **Materiality** | The materiality that we used in the current year was £3.65m. Materiality was determined on the basis of 5% of profit before tax, capped at the materiality that we used for our audit of the company's Solvency and Financial Condition Report. |
| **Scoping** | Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. |
| **Significant changes in our approach** | In the current year, there is significantly more certainty around the impact of COVID-19 on the business and therefore this has not been identified as a key audit matter. |

# Independent Auditor's Report to the Members of British Gas Insurance Limited (continued)

### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

- evaluating management's going concern assessment in light of Covid-19; this included obtaining the underlying business plans and forecasts to support the key assumptions such as pricing and claims rates;
- assessing the Company's Own Risk and Solvency Assessment Report (ORSA) to support our understanding of the key risks faced by the Company, its ability to continue as a going concern, and the longer-term viability of the Company;
- obtaining and inspecting correspondence between the Company and its regulators, the Prudential Regulation Authority and Financial Conduct Authority, as well to identify any items of interest which could potentially indicate either non-compliance with legislation or potential litigation or regulatory action held against the Company; and
- assessing the appropriateness of the going concern disclosure.

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.

### 5. Key audit matters

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

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

#### 5.1 Revenue recognition for earned premium

| | |
|---|---|
| **Key audit matter description** | The company provides for domestic appliances, boiler and central heating systems and therefore there is a seasonality to the business with higher volumes of claims made in the winter months and lower volumes through the summer. Management have therefore determined a risk profile whereby they earn more insurance revenue in the winter months and less in the summer months in line with the profile of costs incurred in relation to these insurance contracts. A separate profile is used for each major product category, reflecting the differing levels of seasonality. We consider this to be a key audit matter given the high level of management judgement in determining the profiles and therefore the potential for this to be manipulated in order to change the period in which revenue is recognised.<br>Gross written premiums of £966m (2019: £997m) are earned in line with the risk profiles of the insurance policies. The risk profiles are based on historic claims patterns, so that the premiums recognised reflect the seasonality of the expected costs. On an annual basis, management perform an exercise to assess whether the existing risk profiles continue to be appropriate or should be changed.<br>The earnings profile is designed to match the earning of premium to the incidence of risk across the year and during the year management performed their own assessment, concluding not to make a change to the existing risk profiles.<br>Whilst we note that the COVID-19 pandemic has resulted in a change to the claims cost |

# Independent Auditor's Report to the Members of British Gas Insurance Limited (continued)

**Revenue recognition for earned premium (continued)**

| | |
|---|---|
| **Key audit matter description (Continued)** | profile during the year this is not indicative of a change to the inherent risk being underwritten. The variance in claims costs through the year was caused by British Gas attending emergency only call outs in the initial lockdown which then resulted in increased call outs later in the year, not a change to the underlying risk.<br>Further details are included within the revenue recognition accounting policy in note 1 to the financial statements and the description of the nature of the company's revenue in note 2 to the financial statements. |
| **How the scope of our audit responded to the key audit matter** | We have gained a detailed understanding over the determination of the risk profiles, their application to the gross written premium and the relevant control surrounding the determination of the risk profiles.<br>• We obtained and challenged management's analysis and selection of the appropriate risk profiles by performing the following procedures:<br>• We tested the completeness and accuracy of the claims data used in the calculation of the risk profiles;<br>• We compared the most recent risk profile based on 2020 data to the risk profile adopted by management which is based on an historical average;<br>• We obtained explanations and supporting information to explain key differences between the profiles, in particular assessing the impact of COVID-19 on claims patterns; and<br>• We tested the application of management's adopted risk profiles by involving analytics' specialists to create an expectation of the earned premium and compared the result to that calculated by management. |
| **Key observations** | We concur with management's assessment that the existing risk profiles continue to be appropriate. |

## 6. Our application of materiality

### 6.1 Materiality

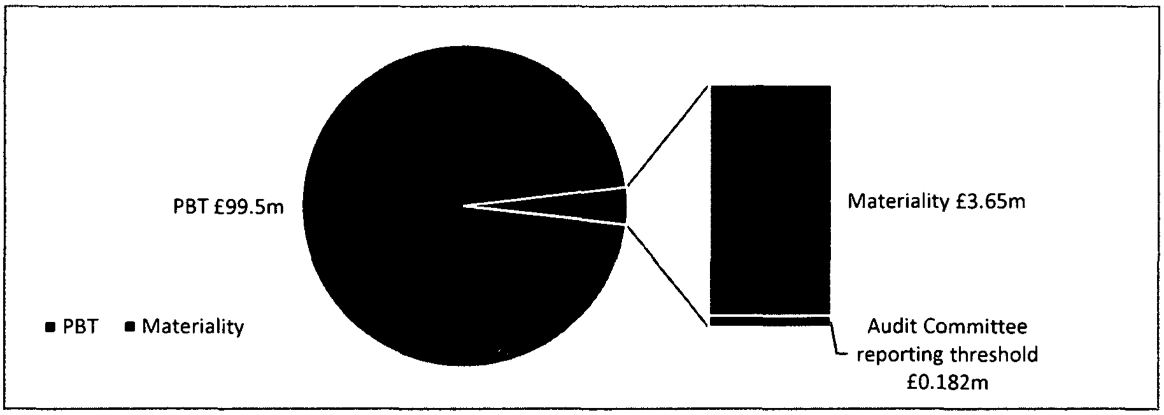
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

| | |
|---|---|
| **Materiality** | £3.65m (2019: £3.94m) |
| **Basis for determining materiality** | 5% (2019: 5%) of profit before tax, capped at the materiality used for the audit of the Company's Solvency and Financial Condition Report. |
| **Rationale for the benchmark applied** | We determined that the key benchmark for the Company was profit before tax. The shareholders of the Company focus on profit before tax as the key performance indicator of the business. The Company is also required to hold certain levels of regulatory capital, and in order to maintain these, the business must continue to be profitable. We also considered this measure to be suitable having compared to other benchmarks: our materiality equates to approximately 3.0% of net assets.<br>The materiality used in the 2020 audit was capped at the level of our materiality used in the audit of the Company's Solvency and Financial Condition Report (SFCR) since the work for the statutory audit informs the audit work undertaken for the SFCR. |

# Independent Auditor's Report to the Members of British Gas Insurance Limited (continued)

**Materiality (continued)**




**6.2 Performance Materiality**

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- The quality of the control environment and the fact that we could rely on controls on the revenue cycle;
- The impact of Covid-19 on the control environment; and
- The low number of corrected and uncorrected misstatements identified in previous audits.

**6.3 Error reporting threshold**

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £0.182m (2019: £0.196m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**7. An overview of the scope of our audit**

**7.1 Scoping**

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

**7.2 Our consideration of the control environment**

Our audit strategy was to rely on controls around the core revenue process. We obtained an understanding of the process and tested relevant controls by inspecting evidence for a number of instances of each control.

Given the importance of IT to the recording of financial information and transactions, we involved IT specialists to obtain an understanding of the IT environment and test the relevant general IT controls. The key IT systems we included in scope compromised the SAP general ledger, the SAP revenue reporting systems and the claims booking system.

**8. Other Information**

The other information comprises the information included in the annual report (the Strategic Report and Directors' Report), other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained in the annual report.

# Independent Auditor's Report to the Members of British Gas Insurance Limited (continued)

## Other Information (continued)

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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.

## 10. Auditor's responsibilities for the audit of the financial statements

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined 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.

### 11.1 Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - ◊ identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

# Independent Auditor's Report to the Members of British Gas Insurance Limited (continued)

**Identifying and assessing potential risks related to irregularities (continued)**

◊ detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;

◊ the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

- the matters discussed among the audit engagement team and involving relevant internal specialists, including IT and analytics' specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud to be in relation to the revenue recognition for earned premium. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These include the Company's solvency requirements and other regulations set by the Prudential Regulation Authority and the Financial Conduct Authority.

**11.2 Audit response to risks identified**

As a result of performing the above, we identified revenue recognition for earned premium as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

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

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

## Report on other legal and regulatory requirements

**12. Opinions on other matters prescribed by the Companies Act 2006**

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

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

# Independent Auditor's Report to the Members of British Gas Insurance Limited (continued)

**Opinions on other matters prescribed by the Companies Act 2006 (continued)**

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

**13. Matters on which we are required to report by exception**

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

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

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

We have nothing to report in respect to these matters.

**13.2 Directors' remuneration**

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

We have nothing to report in respect to this matter.

**14. Other matters which we are required to address**

**14.1 Auditor tenure**
Following the recommendation of the Audit Committee, we were appointed at the Annual General Meeting by board of Directors on 5 May 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 December 2017 to 31 December 2020.

**14.2 Consistency of the audit report with the additional report to the Audit Committee**
Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

**15. 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.

Adam Addis

.............................................................

Adam Addis, ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

7 April 2021

## Income Statement for the Year Ended 31 December 2020

| Technical account - General business | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | | 966,222 | 997,522 |
| Change in the gross provision for unearned premiums | | 20,073 | 14,324 |
| Earned premiums, net of reinsurance | 2 | 986,295 | 1,011,846 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid, gross amount | | (350,110) | (457,936) |
| Change in the provision for claims, gross amount | | 34 | 1,476 |
| **Claims incurred, net of reinsurance** | | (350,076) | (456,460) |
| Net operating expenses | 4 | (537,176) | (471,110) |
| **Balance on the technical account for general business** | | 99,043 | 84,276 |

| Non-technical account | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Balance on the general business technical account** | | 99,043 | 84,276 |
| Investment income | 3 | 708 | 1,444 |
| Investment expenses and charges | 3 | (227) | (167) |
| **Profit on ordinary activities before taxation** | | 99,524 | 85,553 |
| Tax on profit on ordinary activities | 6 | (18,910) | (16,255) |
| **Profit for the financial year** | | 80,614 | 69,298 |

The above results were derived from continuing operations.

## Statement of Comprehensive Income for the Year Ended 31 December 2020

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit for the financial year | 80,614 | 69,298 |
| Total comprehensive income for the year | 80,614 | 69,298 |

The notes on pages 22 to 30 form an integral part of these financial statements

## Statement of Financial Position as at 31 December 2020

| Assets | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 8 | 513,693 | 534,040 |
| **Other assets** | | | |
| Cash at bank and in hand | | 160 | 147 |
| Cash equivalents | 7 | 234,841 | 168,560 |
| **Prepayments and accrued income** | | | |
| Deferred acquisition costs | 14 | 265,177 | 243,699 |
| Other prepayments and accrued income | 9 | 750 | 1,328 |
| | | 265,927 | 245,027 |
| **Total assets** | | 1,014,621 | 947,774 |
| **Liabilities and Equity** | | | |
| **Capital and reserves** | | | |
| Called-up share capital | 13 | 5,000 | 5,000 |
| Profit and loss account | 13 | 101,848 | 104,234 |
| **Total shareholder's funds** | | 106,848 | 109,234 |
| **Technical provisions** | | | |
| Provision for unearned premiums | 14 | 517,338 | 537,411 |
| Claims outstanding | 10 | 9,328 | 9,362 |
| | | 526,666 | 546,773 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | 11 | 345,866 | 255,911 |
| Other creditors including taxation and social security | 12 | 34,456 | 34,982 |
| | | 380,322 | 290,893 |
| **Accruals** | | 785 | 874 |
| **Total liabilities and equity** | | 1,014,621 | 947,774 |

The financial statements on pages 19 to 30 were approved and authorised for issue by the Board of Directors on 7 April 2021 and were signed on its behalf by:

..............................................................

C L McLeod

Director

Company number: 06608316

## Statement of Changes in Equity for the Year Ended 31 December 2020

| | Called-up Share capital £'000 | Profit and loss account £'000 | Total shareholder's funds £'000 |
|---|---|---|---|
| **At 1 January 2020** | **5,000** | **104,234** | **109,234** |
| **Profit for the financial year** | **-** | **80,614** | **80,614** |
| **Dividends** | **-** | **(83,000)** | **(83,000)** |
| **At 31 December 2020** | **5,000** | **101,848** | **106,848** |

| | Called-up Share capital £'000 | Profit and loss account £'000 | Total shareholder's funds £'000 |
|---|---|---|---|
| At 1 January 2019 | 5,000 | 117,936 | 122,936 |
| Profit for the financial year | - | 69,298 | 69,298 |
| Dividends | - | (83,000) | (83,000) |
| At 31 December 2019 | 5,000 | 104,234 | 109,234 |

The notes on pages 22 to 30 form an integral part of these financial statements.

## Notes to the Financial Statements for the Year Ended 31 December 2020

### 1. Accounting policies and estimations

**Basis of preparation**

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ('FRS 101'). In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of FRS 101 disclosure exemptions has been taken.

The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes.
- Disclosures in respect of related party transactions with other wholly-owned group companies.
- Disclosures in respect of the compensation of key management personnel.
- The effects of new but not yet effective IFRSs.

The financial statements are presented in pounds sterling, with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated, which is also the functional currency of the Company.

The financial statements are prepared on the historical cost basis.

**Summary of new accounting policies**

Standards and amendments effective or adopted in 2020:

From 1 January 2020 the following standards and amendments became effective in the Company's financial statements and did not have a material impact:

- Amendment to IFRS 3 'Business combinations';
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors';
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform; and
- Conceptual Framework for Financial Reporting 2018.

The Brexit transition period came to an end on 31 December 2020. These financial statements comply with EU regulations and apply IFRS as endorsed by the EU. Starting with the accounting period commencing 1 January 2021, the Company will apply IFRS as adopted by the UK. Legislation provided that IFRS as endorsed by the EU became UK-adopted on 1 January 2021. It is possible that the two frameworks may diverge over time.

Standards and amendments that are issued but not yet applied by the Company:

The Company has not applied the following standard in the Company's financial statements as it is not yet effective and has not been endorsed. The standard is expected to be effective from 1 January 2023 and the impact on the Company's financial statements is currently being assessed:

- IFRS 17 'Insurance contracts': This standard was issued by the IASB in May 2017 and provides one accounting model for all insurance contracts. IFRS 17 provides consistent principles for all aspects of accounting for insurance contracts. It requires a company to recognise profits as it delivers insurance services and provide information about insurance contract profits the company expects to recognise in the future. BGIL is carrying out an assessment of IFRS 17 to determine the scope and financial impact of the new standard.

The following amendments are expected to become effective in the Company's financial statements from 1 January 2021 and have been endorsed unless otherwise indicated. Their adoption is not expected to have a material impact on the Company's financial statements:

- Amendment to IFRS 16: 'Leases' (effective 1 June 2020);
- Amendment to IFRS 4: 'Insurance Contracts';
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform – Phase 2 (subject to endorsement).

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### Going Concern

The financial statements have been prepared on a going concern basis. Covid-19 has caused widespread disruption to businesses and economic activity including fluctuations in UK and global financial markets. The Company's assets are invested in sterling denominated short-term money market funds so have been resilient to these movements. Technical provisions are very short term in nature and are not expected to be affected by interest rate movements. The Company holds capital to cover a 1-in-200 operational risk event as well as additional capital above the regulatory solvency capital requirement in order to be resilient to a range of stress scenarios. As such, solvency and liquidity positions remain robust.

The longer-term effects of the virus on the UK economy remain uncertain, but stress tests of the impact on the Company conclude that BGIL's capital and liquidity position will remain within regulatory requirements and risk appetite. Post balance sheet events note 19 refers to assessments of the Company's financial position in light of the Coronavirus (Covid-19) pandemic.

The ultimate parent company Centrica plc currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue.

### Summary of significant accounting policies and key accounting estimates

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

### Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. All of the Company's insurance products transfer sufficient risk to be classified as insurance contracts.

The results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums as follows:

*(a) Premiums written*
Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued and include estimates of premiums due but not yet receivable or notified to the Company, less an allowance for cancellations. Premiums written exclude insurance premium taxes.

*(b) Unearned premiums*
Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, taking account of the incidence of risk over the life of the insurance contracts.

*(c) Acquisition costs*
Commissions payable are deferred over the periods in which the related premiums are earned.

*(d) Claims incurred*
Claims incurred comprise claims and the related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any adjustments to claims from previous years.

*(e) Claims provisions*
Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred to settle them. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims' exposures; however given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

### Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

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

*(a) Outstanding claims*
Outstanding reported claims are estimated based on a view of likely settlement of breakdowns based on their age. For claims under 3 months old, 90% of claims are assumed to settle at cost. For claims over 3 months old, 0% of claims are assumed to settle at cost.

*(b) IBNR*
The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. All of the Company's insurance activities fall within the Assistance class of business, with claims typically reported quickly after the claim event has occurred and would be expected to display a low level of volatility. In calculating the estimated cost of unpaid claims, the Company uses the results of surveys of a sample of customers to statistically impute estimated liability and using the unit costs contractually agreed with BGSL, which fulfils claims on the Company's behalf. Those unit costs, which also include an amount for claims handling, remove from the Company any exposure to large claims. There is though, an exposure to fluctuations in claims frequency.

*(c) Earnings profiles*
The Company applies earnings profiles to revenue generated in the year. These profiles are based on the typical seasonality of claim costs through a year and tend to be relatively consistent from year to year with higher claims in the winter months and fewer in the summer. A review is undertaken annually to assess the appropriateness of the earnings profiles. The 2020 review concluded that while Covid-19 had materially impacted the timing of individual claims, the incidence of claims across the year was not significantly different from previous years. Consequently, the Directors concluded that earnings profiles should remain unchanged.

**Unexpired risks provision**

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return. The expected claims are calculated based on information available at the balance sheet date.

**Investments**

Deposits with financial institutions are reported at amortised cost under IFRS 9 Financial Instruments. Other financial investments relate to investments in money market funds and these are required under IFRS 9 to be measured at fair value through profit and loss as the assets are not held solely for the purpose of collecting contractual cash flows related to principal and interest. Investments in money market funds are included in the statement of financial position at fair value and are remeasured to fair value in each subsequent reporting period.

**Investment Return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses.

Investment return is recorded in the non-technical account: no transfer is made to the technical account.

**Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

# Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

**Financial assets and financial liabilities**

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

(a) Debtors
Debtors are principally premiums due from customers and are recognised at fair value.

(b) Share capital
Ordinary shares are classified as equity.

(c) Cash and cash equivalents
Cash comprises cash in hand and balances with banks and similar institutions. Cash equivalents comprise investments in short-term money market funds.

## 2. Revenue

All of the Company's revenue for the year from continuing operations is in respect of insurance policies covering the breakdown of domestic boilers and central heating systems, plumbing and drains, and electrical and gas appliances. Revenue is recognised according to estimated earning profiles based on typical seasonality in underlying costs.

All revenue arises in the United Kingdom.

## 3. Investment income and investment expenses and charges

Investment income represents interest earned from the Company's unit holdings in short-term money market funds and deposits with financial institutions. There were no realised investment gains or losses and no investment appreciation (2019: nil).

## 4. Net operating expenses

Net operating expenses include the following charges/(credits):

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Customer acquisition costs (all commission) | **480,281** | 440,721 |
| Change in deferred acquisition costs | **(21,478)** | (10,273) |
| Acquisition costs accounted for during the year (all commission) | **458,803** | 430,448 |
| Profit commission | **70,005** | 31,376 |
| Administrative expenses | **8,368** | 9,286 |
| | **537,176** | 471,110 |

Profit commission is payable under the terms of an agreement between the Company and BGSL based on the profitability of business introduced to the Company. Profitability in 2020 benefitted from lower claims and handling costs driven in part by warmer weather which resulted in reduced boiler and central heating claims frequency, a change to the basis on which BGIL pays BGSL for fulfilling some claims and reduced service visit activity due to Covid-19 lockdowns.

Employees of Centrica group who provided services to the Company do not have service contracts with British Gas Insurance Limited but have contracts with other Centrica group companies, where their costs are disclosed and recharged to the Company.

# Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

## 5. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the financial statements:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Audit of the financial statements | **103** | 100 |

Fees paid to the auditor for services other than the audit of the financial statements are not reported as they are disclosed in the group financial statements of the Company's ultimate parent undertaking, Centrica plc.

## 6. Tax on profit on ordinary activities

| Tax charged in the income statement | 2020 | 2019 |
|---|---|---|
| **Current taxation:** | **£'000** | £'000 |
| United Kingdom corporation tax at 19% (2019: 19%) | **18,910** | 16,255 |
| Tax expense in the income statement | **18,910** | 16,255 |

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | **99,524** | 85,553 |
| Tax on ordinary activities at standard UK corporation tax rate 19% (2019: 19%) | **18,910** | 16,255 |
| Total income tax expense reported in the income statement | **18,910** | 16,255 |

No deferred tax arises on the Company's activities (2019: nil).

The Company earns its profits in the UK.

The main rate of corporation tax for the year to 31 December 2020 was 19%.

## 7. Cash equivalents

Cash equivalents comprise units in short-term money market funds which are available for sale. Units in the funds are recorded on the balance sheet at fair value and any changes in fair value taken through the profit and loss.

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Cash equivalents | **234,841** | 168,560 |
| | **234,841** | 168,560 |

## 8. Debtors arising out of direct insurance operations

Debtors arising out of direct insurance operations comprise

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Premium instalments receivable from policyholders | **491,776** | 512,552 |
| Amounts receivable from group undertakings | **21,917** | 21,488 |
| | **513,693** | 534,040 |

All amounts are due within one year.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 9. Other prepayments and accrued income

Other prepayments and accrued income comprise:

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Regulatory fees and levies | 750 | 1,328 |
| | 750 | 1,328 |

### 10. Claims outstanding

Claims outstanding comprise:

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Reported claims, including claims expenses | 6,998 | 6,066 |
| Incurred but not reported ('IBNR') claims, including claims expenses | 2,330 | 3,296 |
| | 9,328 | 9,362 |

No claims outstanding are discounted.

The number and cost of claims that settle after more than one year is immaterial.

The IBNR provision is determined from the average estimated elapse time between claim occurrence and advice to the Company. At 31 December 2020, the average estimated elapse time was 2.7 days (31 December 2019: 3.5 days). A change in the average by one day would increase or reduce IBNR by £0.9m (31 December 2019: £0.9m).

### 11. Creditors arising out of direct insurance operations

The balance comprises amounts payable to British Gas Services Limited:

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Commissions payable on future premium instalments due from policyholders | 268,181 | 247,033 |
| Profit commission and other items | 77,685 | 8,878 |
| | 345,866 | 255,911 |

Amounts due to group undertakings are unsecured and interest free.

All amounts are payable within one year.

### 12. Other creditors including taxation and social security

Other creditors comprise:

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Insurance premium tax | 29,879 | 30,912 |
| Group relief creditor | 4,384 | 4,019 |
| Other creditors | 193 | 51 |
| | 34,456 | 34,982 |

The group relief creditor represents the tax charge of £18.910m on the Company's 2020 profits less a payment on account of £14.526m settled in 2020.

All amounts are payable within one year.

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 13. Capital and reserves

| *Called up share capital:* | **2020** | 2019 |
|---|---|---|
| **Issued, allotted and fully paid** | **£'000** | £'000 |
| 5,000,100 ordinary shares of £1 each (2019: 5,000,100) | **5,000** | 5,000 |

Fully paid ordinary shares carry one vote per share and a right to dividends as and when declared by the Company.

***Profit and loss account:***
The balance includes profits from previous years that were not distributed to the shareholders of the Company at the balance sheet date.

***Dividends:***
An interim dividend of £39,000,000 (£7.80 per share) was paid on 23 June 2020 and a second interim dividend of £44,000,000 (£8.80 per share) was paid on 22 December 2020 to the Company's immediate parent undertaking GB Gas Holdings Limited (2019 interim dividends: £83,000,000 (£16.60 per share).

***Capital management:***
Capital under management at 31 December 2020 was £106.8m comprising called-up share capital and profit and loss reserve (31 December 2019: £109.2m).

The Company's capital management policy and plan is subject to review and approval by the Board and the key elements are:

1. Compliance with all capital obligations set by regulatory authorities.
2. Reporting processes that provide relevant and timely capital information to management and the Board.
3. An effective early warning system that anticipates potential breaches of compliance.
4. A medium-term capital plan updated to meet changing circumstances.
5. A capital management and planning process integrated with dividend distribution policy.

A dividend distribution policy is approved annually by the Board taking account of regulatory capital obligations and the Company's business forecasts.

Further information on capital management is set out in the Strategic Report on page 5.

### 14. Reconciliation of changes in unearned premiums and deferred acquisition costs

Movements during the year in unearned premiums and deferred acquisition costs comprise:

**Unearned premium provision ("UPP")**

| | **2020** | 2019 |
|---|---|---|
| | **£'000** | £'000 |
| UPP at 1 January | **537,411** | 551,735 |
| Gross premiums written | **966,222** | 997,522 |
| Gross premiums earned | **(986,295)** | (1,011,846) |
| UPP at 31 December | **517,338** | 537,411 |

**Deferred acquisition costs ("DAC")**

| | **2020** | 2019 |
|---|---|---|
| | **£'000** | £'000 |
| DAC at 1 January | **243,699** | 233,426 |
| Commission on premiums written | **480,281** | 440,721 |
| Commission on premiums earned | **(458,803)** | (430,448) |
| DAC at 31 December | **265,177** | 243,699 |

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 15. Related party transactions

Fees allocated to the Company for services provided by non-executive Directors and remuneration for employees who had specific functions as Directors of the Company were £158,438 (2019: £425,925).

Directors who are employees of the Company but do not have specific functions as Directors of the Company are remunerated as employees of the Centrica plc group and have not been included in these financial statements.

| Directors' remuneration for the year was as follows: | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Aggregate emoluments paid to Directors in respect of their qualifying services | **158** | 384 |
| Aggregate value of Company contributions paid to a pension scheme in respect of Directors' qualifying services | - | 6 |
| Aggregate amount paid to Directors as compensation for loss of office | - | 36 |
| | **158** | 426 |

| | **2020 Number** | 2019 Number |
|---|---|---|
| Number of Directors to whom retirement benefits are accruing under money purchase pension schemes | - | 1 |
| Number of Directors who received shares in the ultimate parent Company in respect of their qualifying services under a long-term incentive scheme | - | 2 |

In both the current and prior years the remuneration of the highest paid Director was less that £200,000 and no further disclosures are required. The Company has taken advantage of the FRS 101 disclosure exemption in respect of related party transactions with other wholly-owned group companies.

### 16. Financial instruments at fair value

The fair value of the Company's financial instruments, together with the carrying amounts included in the statement of financial position are analysed below:

| | **2020 Carrying value/fair value £'000** | 2019 Carrying value/fair value £'000 |
|---|---|---|
| Cash equivalents | **234,841** | 168,560 |
| Debtors arising out of direct insurance operations | **513,693** | 534,040 |
| Cash at bank and in hand | **160** | 147 |
| **Total financial assets** | **748,694** | 702,747 |

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

**Financial instruments at fair value (continued)**

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Creditors arising out of direct insurance operations | **345,866** | 255,911 |
| Reported outstanding claims, including claims expenses | **6,998** | 6,066 |
| Accruals | **785** | 874 |
| Group relief creditor | **4,384** | 4,019 |
| Other creditors | **193** | 51 |
| **Total financial liabilities** | **358,226** | 266,921 |

Due to their nature and/or short-term maturity, the fair values of all financial instruments approximate their carrying values. The money market funds (cash equivalents) of £235m (2019: £169m) fall under level 2 inputs in terms of the fair value hierarchy.

### 17. Financial assets and liabilities subject to netting arrangements

The Company has a services agreement with BGSL under which premiums collected by BGSL on behalf of the Company are set against commission and claim amounts payable to BGSL. At 31 December 2020, the gross balance due by the Company to BGSL under this arrangement was £77.7m (31 December 2019: £9.5m). When profit commission is excluded the net balance due by the Company to BGSL under this arrangement was £7.7m (31 December 2019: £0.6m).

### 18. Parent and ultimate parent undertaking

GB Gas Holdings Limited, a company registered in England and Wales, is the immediate parent undertaking. Centrica plc, a company registered in England and Wales, is the ultimate parent undertaking and the only company to consolidate the financial statements of the Company. Copies of the financial statements of Centrica plc may be obtained from www.centrica.com. The financial statements can also be obtained from the following address: Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD which is the registered address of Centrica plc.

### 19. Post balance sheet events

In March 2020 the World Health Organisation declared a global pandemic (Covid-19). In the UK the Coronavirus Act 2020 places wide-ranging restrictions on freedom of movement and since the date of reporting at 31 December 2020, further Covid-19 related lockdowns have been imposed across the country.

We are focused on looking after the health and safety of our employees and customers and follow relevant advice from the government and health organisations. Depending on prevailing circumstances, the fulfilment of non-essential visits may be rescheduled but service engineers continue to attend emergencies such as no heating or hot water.

Covid-19 has caused widespread disruption to businesses and economic activity including fluctuations in UK and global financial markets, but our investment policy means our funds have been largely unaffected. The roll out of vaccines to combat the virus was significantly ramped up by the UK Government in January 2021, and from 8 March restrictions have started to lift in line with the government's roadmap, representing very positive developments towards further reducing lockdown restrictions.

Subsequent to the reporting date, BGSL service engineers commenced industrial action in relation to changes to terms and conditions of employment with a series of strike dates in 2021. Contingency plans are in place and there is expected to be minimal financial impact on BGIL. Centrica remains committed to working with the GMB union to resolve the dispute.

The Board has assessed the impact of these developments as non-adjusting post balance sheet events.

The Directors are not aware of any other significant post balance sheet events that require disclosure within these financial statements.