

British Gas Insurance Limited



Registered number: 06608316

British Gas Insurance Limited

Annual Report and Financial Statements
For the year ended 31 December 2023

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British Gas Insurance Limited

Company Information

Registered Number: 06608316

Registered Office: Millstream
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Directors: A H Bowe
R A Phipps
S R Vann
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J Siber
M L Thomas

Company Secretary: Centrica Secretaries Limited

Independent Auditors: Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Strategic Report for the Year Ended 31 December 2023

The Directors present their Strategic Report for British Gas Insurance Limited ("BGIL" or "the Company") for the year ended 31 December 2023.

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 considered wider stakeholders in their decision-making and the principal decisions taken during the year.

While BGIL is an independent subsidiary of Centrica plc, its activity supports the broader strategy of British Gas and the Centrica Group ("the Group"). Where appropriate, for example, in matters of long-term strategy, decision-making is strategically aligned with that of the parent company, ensuring that BGIL stakeholders have been 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 the 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 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 it operates in, including the challenges of a highly competitive marketplace, regulatory intervention and climate change. Climate change is increasingly important to investors and customers and the Group has made a series of commitments as part of its 'People and Planet Plan'. Further information on this, including how the Group is engaging with stakeholders, helping customers to be net zero and reducing its own emissions to reach net zero, can be found on pages 14 to 15 and 41 to 44 of the Group's Annual Report and Accounts 2023.

The Directors acknowledge the diverse perspectives and interests of all our stakeholders regarding our operations and understand that certain decisions may not fully meet the expectations or align with the interests of every stakeholder.

Strategic Report for the Year Ended 31 December 2023 (continued)

General confirmation of Directors' duties (continued)

The Directors are committed to engaging in open and respectful dialogue to better understand these viewpoints and work towards decisions that consider the broad spectrum of stakeholder interests.

The Directors made decisions during 2023 that they believed would best promote Centrica's long-term success for the benefit of its stakeholders. For instance, the Board had oversight of British Gas investing into supply chain and delivery systems (where it applied to BGIL and British Gas Services Limited ("BGSL") and the appointment of new regulatory role holders.

During the year, the Directors approved the payment of an interim dividend. In making this decision, they carefully considered the importance of maintaining the long-term sustainability of the business for its customers and policyholders. Mindful of ongoing high inflation and stricter regulatory guidance, the Directors sought extra assurance before approving the dividend payment.

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

(b) The interests of the company's workforce

Whilst BGIL has no direct workforce, the Directors recognise that the workforce of intermediary BGSL is fundamental to the future growth and success of the company. That success depends on looking after our employees and considering employees of our intermediary BGSL, including applying 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 remuneration during the ongoing cost of living pressures, balanced against profitability. In 2023, the Board was kept well-informed during the annual pay negotiations.

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

The Directors understand the importance of interacting with a wide variety of stakeholders and believe that our strategy's success relies on establishing and nurturing positive relationships with them. The Board is committed to ensuring that, as much as possible, BGIL's policyholders (customers) have access to heating and hot water during severe winter conditions. Priority is given to vulnerable customers and customers' annual service visits is carried out in line with the Company's policies.

Considering the current cost of living challenges, the Board is pleased with the ongoing review of products to ensure they remain relevant and offer value to consumers.

(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. BGIL, through its intermediary BGSL, has given back to the community through 27,106 hours of volunteering in projects within the community.

BGSL continues to increase the use of electric vehicles across its engineering fleet. Further information about how the Centrica Group engages with communities and NGOs can be found on pages 41 to 55 and 82 to 83 of the Group's Annual Report and Accounts 2023.

Strategic Report for the Year Ended 31 December 2023 (continued)

General confirmation of Directors' duties (continued)

(e) The desirability of the company to maintain a reputation for high standards of business conduct

The Board takes into account the group's "Our Code" code of conduct when evaluating issues related to whistleblowing and conflicts of interest, as well as in 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 between members of the company

After weighing up all relevant factors, the Directors consider which course of action best promotes the company's long-term success, considering the impact on stakeholders. In doing so, the Directors act fairly among 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.

Stakeholder engagement

BGIL has proactively engaged with the regulator throughout 2023 on matters such as the impact of inflation on our business and interim dividend payment.

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 14-15 of the Group's Annual Report and Accounts 2023. Engaging with stakeholders delivers better outcomes for society and the business. It is fundamental to the company's long-term success.

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 9 of the Group's Annual Report and Accounts 2023.

Review of the business

All business continued to be introduced to the Company by BGSL. 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 handling activities, customer service quality, and 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.

BGSL is working alongside BGIL to implement the FCA's new Consumer Duty requirements, focusing on continuing to provide good outcomes for our insurance customers. New product offerings are introduced following appropriate market testing.

Strategic Report for the Year Ended 31 December 2023

Results and performance

Profit on ordinary activities before taxation for the year was £51.5m (2022: £23.7m), and profit for the financial year was £39.4m (2022: £19.2m). The improvement can be attributed to a decrease in claims volumes relative to the previous year and an increase in internal pricing from BGSL which represents contractually agreed premiums net of commission.

The statement of the financial position of the Company is presented on page 30. Total shareholder's funds at 31 December 2023 increased in the year to £116.9m (2022: £99.5m) following the payment of interim dividends of £22.0m on 31 October 2023 (2022 dividends: £30.0m).

The number of policies in force decreased by 9.6% in the year to 5.7m at 31 December 2023 (2022: 6.3m). This follows the contraction of the broader insurable home services market as more consumers choose to self-insure, partly driven by longer warranty periods offered by OEMs on heating appliances.

Gross premiums written reduced by 4.3% to £793.0m at 31 December 2023 (2022: £829.1m). The reduction in written premiums reflects the lower volume of policies in force as well as the increasing popularity amongst customers of lower priced products that include a claims excess.

The combined operating ratio ("COR") is the ratio of claims incurred and operating expenses to premiums earned. As of 31 December 2023, the COR decreased to 94.6% (2022: 97.5%). This improvement was driven by lower overall claims volumes compared to 2022 and increased internal pricing from BGSL, which represents contractually agreed premiums net of commission.

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

Strategic Report for the Year Ended 31 December 2023 (continued)

Key performance indicators (KPIs)

The Company's key performance indicators are:

	<u>2023</u>	<u>2022</u>
Profit on ordinary activities before taxation (£m)	£51.5	£23.7
Gross premiums written (£m)	£793.0	£829.1
Policies in force at 31 December (000's)	5,693	6,300
Combined operating ratio	94.6%	97.5%

Policies in force represent individual policies of cover taken out by customers, with the exception of kitchen appliance cover, which represents 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, 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"), the minimum capital requirement ("MCR") and margins of solvency above regulatory minimums agreed by the Board. The determination of the SCR is informed by the Company's Solvency II partial internal model. BGIL own funds (Solvency II) for the year ended 31 December 2023 were £144.6m, with a solvency capital requirement of £65.7m.

Particular attention is paid to ensuring 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.

A dividend distribution policy is considered annually by the Board, taking capital requirements into account. To provide the Board with additional assurance that levels of capital would remain robust under adverse conditions.

On 31 December 2023, the Company had and 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.

Strategic Report for the Year Ended 31 December 2023 (continued)

Net zero

The company aligns and fully supports the Group with the green-focused investment strategy, delivering net zero for us and our customers. We have commenced a disciplined, green-focused growth and investment strategy, creating long-term value for shareholders and helping deliver net zero for Centrica by 2045 and our customers by 2050. Further information on Net zero can be found on page 5 of the Group's Annual Report and Accounts 2023

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.

Principal risks and uncertainties

Risk management

British Gas Insurance has developed a framework for identifying the risks that it is exposed to and their potential financial and non-financial impacts. The framework is overseen and approved by the Board of Directors, who are also responsible for setting the company's risk appetite. The Board also ensure that an effective control environment is in place. Minutes of all Board meetings are recorded and reflect the substance of discussions as well as decisions made. The Board delegates the oversight and review of the risk management and controls system to the Risk Committee, which is a sub-committee of the Board and meets at least four times a year.

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 and 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 the identification of emerging risks and the 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 is responsible for strategic matters relating to conduct.

Strategic Report for the Year Ended 31 December 2023 (continued)

Principal risks and uncertainties (continued)

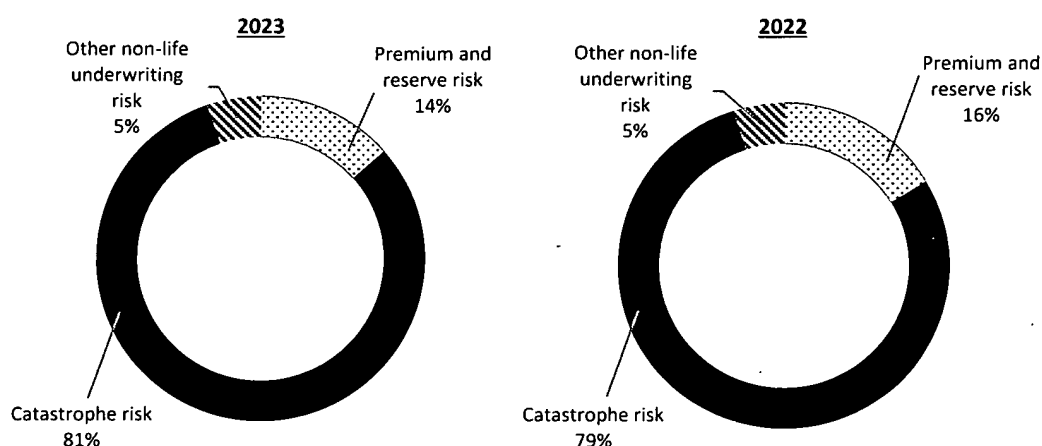
The principal risks to the Company are set out below:

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

(i) Underwriting Risk

Underwriting risk refers to fluctuations in the timing, frequency and severity of insured events relative to the expectations of the undertaking at the time of underwriting as well as fluctuations in premium volumes relative to the business plan. The composition of the Company's underwriting risk profile is shown below.



Underwriting risk is managed in accordance with the Company's Insurance Risk Policy and is assessed using the Company's internal model. The Company's underwriting risk consists of three main elements:

- **Catastrophe risk:** cold weather risk is the Company's main driver of underwriting risk. In cold weather, there is an increased demand on central heating systems, leading to higher boiler breakdown rates and therefore increased claims.
- **Premium and reserve risk** considers the volatility of actual claims and premiums compared to those forecast in the business plan. In the Company, premium and reserve risk is low due to:
 - the Company's very short claims development tail: claims are usually reported and settled within a few days.
 - The contractual unit claims cost relationship with its sister service company, BGSL: the Company pay BGSL a fixed unit cost per claim varying by product.
 - The inherent nature of the insurable risks: in most cases an engineer attends the breakdown rather than the settlement of the claim in cash.
- **Other non-life underwriting risks** relate to component defect, policy wording and pricing of premiums.

The company has several processes and controls in place to manage underwriting risk, including:

- 12-month contract terms, after which the Company is entitled to decline cover or impose renewal terms by amending premiums, policy excess (where applicable), or other policy terms and conditions as appropriate.

Strategic Report for the Year Ended 31 December 2023 (continued)

Principal risks and uncertainties (continued)

- **First visits:** when a customer first purchases a central heating policy, an engineer visits their property to assess access, safety and insurability. If the findings are adverse, then BGSL works with the customer to address the issues, or the cover is declined. For some products where a first visit does not take place, such as breakdown only, claims cannot be made within 14 days of policy inception.
- **Annual Service Visits:** primarily a health check, but the annual service visit also provides an opportunity for the early identification of claims and is believed to mitigate underwriting risk.

The Company's portfolio comprises a large number of contracts with small individual values underwritten in the Solvency II "assistance" class of business. Within this class of business, the Company focuses on a number of domestic boilers and central heating systems, plumbing and drains, and electrical and gas appliances.

Geographical concentration risk is low due to the high number of contracts spread throughout the UK. 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	7.8
One percentage point increase in average breakdown	2.7
(ii) Reserving Risk	

Reserve risk considers the risk that reserves held on the balance sheet are not adequate to cover the cost of existing liabilities. The main reserves held by the company are the unearned premium reserve (UPR), known claims reserves and incurred but not reported (IBNR) claims reserves. The output of this is reported to the Board Audit Committee.

The business underwritten by the company is very short tailed compared to other insurance entities, with claims being reported and settled within a few days. As a result, the level of uncertainty around IBNR claims reserves is low.

Operational risk

The main component of operational risk is conduct risk arising from BGIL's relationship with BGSL. BGSL introduces business to BGIL and 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. The operational risk also makes an allowance for transition risk as the systems that support these processes are being updated throughout the next 12 months. Under the terms of the services agreement, some complaints handling activity is undertaken directly by BGSL, and some are 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.

Strategic Report for the Year Ended 31 December 2023 (continued)

Principal risks and uncertainties (continued)

As with all companies that hold customer data, BGIL is exposed to cyber risk. There is an increase in the sophistication of external threats in general and with home working of office-based staff as a result of the pandemic. Cyber risk is closely monitored and managed, particularly with regards to the loss of key IT systems and data protection.

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. 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 required 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 are less exposed to transition risks through its asset strategy.

Climate change is an area of regulatory focus and BGIL continues to monitor regulatory developments to ensure requirements are met.

In preparing the financial statements, the directors have considered the impact of climate change in the context of the risks and opportunities. No material impact has been identified on the financial reporting judgements and estimates.

Cost of living

The ongoing cost-of-living crisis in the UK triggered by high inflation rates in 2022, higher utility prices and higher interest rates can impact the BGIL customer base as it is understood that more customers are choosing to self-insure.

The Company holds capital to cover a 1-in-200 risk event and additional capital above the regulatory solvency capital requirement to be resilient in a range of stress scenarios. As such, solvency and liquidity positions remain robust.

Strategic Report for the Year Ended 31 December 2023 (continued)

Principal risks and uncertainties (continued)

Ukraine and Global conflicts

BGIL does not own any businesses or operate in areas of conflict such as Russia, the Middle East, or Ukraine, and so it has no direct impacts from those countries.

BGIL has not experienced any direct material impacts but will keep monitoring the position.

BGIL is a subsidiary of the Centrica group, parts of which have been impacted by the energy crisis and Ukraine conflict. The energy markets remain volatile in 2023, but the Centrica group maintains a hedging strategy aligned to the price cap to minimise the exposure to market prices.

Reputational risk

The British Gas brand has a high-profile image in UK consumer markets and BGIL has potential exposure to brand damage contagion caused by other parts of the Group or the energy market in general. The principal direct impact of British Gas brand damage to BGIL would be a reduction in business volumes through a loss of existing business.

Whilst Solvency II capital requirements do not separately quantify reputational risk, this risk is regularly assessed by the Company through its risk management framework.

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 under 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 a 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.

Inflation risk

The Company is currently operating in a high inflationary environment. Inflationary increases to claims costs are mitigated by the intercompany agreement with BGSL, under which costs per product are contractually fixed, typically for a period of one year. The contractual cost per claim was renegotiated in January 2023 and remained unchanged thereafter. Management is focused on monitoring the impact of inflation for both wages and spare parts. BGIL will review the financial arrangements with BGSL as required.

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 limiting permitted investments to only sterling denominated securities.

Consequently, the Company has no exposure to foreign currency exchange rate fluctuations.

Strategic Report for the Year Ended 31 December 2023 (continued)

Financial risk management (continued)

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 2023 the most significant exposure to a single counterparty was £26.2m (31 December 2022: £13.4m), 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.

The Company's financial investments at 31 December 2023 (£165.5m) and 31 December 2022 (£147.9m) 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 2023, the weighted average maturity ("WAM") of the Company's investment portfolio was 37 days (31 December 2022: 34 days) and the weighted average life ("WAL") was 58 days (31 December 2022: 49 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

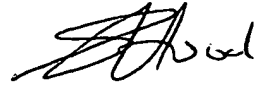
The Company has interest-earning assets in the form of investments and cash, which are exposed to fluctuations in market rates of interest. The policy applied throughout 2023 was to invest only in short-term money market funds, which earn a relatively low rate of return; variations in market interest rates do not materially impact the business's cash flows.

The Company has no interest-bearing liabilities.

British Gas Insurance Limited

Strategic Report for the Year Ended 31 December 2023 (continued)

This strategic report was approved by the Board on 25 March 2024.



Samantha Hood

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 2023

The Directors present their report and the audited financial statements for the year ended 31 December 2023.

Information relating to future developments and financial risk management has been disclosed in the Strategic Report on pages 4 to 15.

Dividends

An interim dividend payment of £22.0m to the Company's immediate parent undertaking, GB Gas Holdings Limited, was approved on 20 September 2023 and paid on 31 October 2023 (2022 interim dividends: £30.0m). On 18 March 2024 a final dividend of £50.0m to the Company's immediate parent undertaking GB Gas Holdings Limited, was approved.

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

A H Bowe (Non-Executive)
R A Phipps (Non-Executive Chairman)
S R Vann (Non-Executive)
S Ruparelia (Non-Executive)
J Siber (Managing Director)
M L Thomas (Finance Director) (appointed 20 April 2023)

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.

There are no qualifying indemnity provisions for the benefit of any existing or previous company directors.

Going Concern

The financial statements have been prepared on a going concern basis. 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.

Additional assurance can be given as the ultimate parent company Centrica plc will support the company if required 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 elected to prepare the financial statements in accordance with the United Kingdom Generally Accepted Accounting Practice and applicable law, including FRS 102, the financial reporting standard applicable to the UK and the Republic of Ireland and FRS 103 insurance contract 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 2023 (continued)

Statement of Directors' responsibilities (continued)

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a 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 18 March 2024.



Samantha Hood

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 of 31 December 2023 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice); 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;
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting Standard 103 "Insurance Contracts" (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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

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

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

Summary of our audit approach

Key audit matters	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"> • Appropriateness of the earnings profile applied to unearned premiums <p>Within this report, the key audit matter is identified as follows:</p> <p>⌂ Similar level of risk</p>
Materiality	The materiality that we used in the current year was £6.3m (FY22: £6.6m) which was determined on the basis of 0.8% (FY22: 0.8%) of gross written premiums.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There is no significant change to our approach from prior year.

3. 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:

- assessing the underlying business plans and forecasts that support the key assumptions such as pricing and claims rates;
- obtaining the latest intercompany agreements with other Centrica Plc (British Gas Insurance Limited Group parent company) subsidiaries to assess whether any price or cost assumptions have changed;
- 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;
- considering the challenging macroeconomic environment with regard to significant cost inflation, particularly in labour markets;
- obtaining and inspecting correspondence between the company and its regulators, the Prudential Regulation Authority and Financial Conduct Authority, 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.

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

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

4. 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.

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

4.1 Appropriateness of the earnings pattern applied to unearned premiums <>

Key audit matter description	<p>The company provides insurance 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 has therefore determined a risk profile whereby they earn more insurance premiums in the winter months and less in the summer months in line with the profile of costs incurred in relation to the incidence of risk in the 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 to change the period in which premiums are recognised.</p> <p>Gross written premiums of £792m (2022: £829m) are earned in line with the risk profiles of the insurance policies, with the purpose that the earnings profile matches the incidence of risk across the year. Claims costs are used by management as an indicator of claims incidence due to the short duration between claims occurring and being remediated. The risk profiles are based on historical 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. In 2023 management considered the claims profile of the business and determined it appropriate not to change the earnings pattern. Further details are included within the insurance contracts accounting policy in note 1 to the financial statements and the criteria for recognising earned premiums in note 2 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We gained an understanding of the process for determination of the risk profiles, their application to gross written premium and tested the relevant controls surrounding the determination of the risk profiles.</p> <p>To respond to the key audit matter we performed the following procedures:</p> <ul style="list-style-type: none"> • With the assistance of our analytics specialists we extracted and analysed the claims data used in the calculation of the risk profiles for completeness and accuracy. • We compared the claims profile used by management with the actual incidence of claims in the year, as well as a multi-year range. We assessed if a change from the existing profile would create a material difference in revenue recognition. • With the assistance of our analytics specialists we tested the application of management's adopted risk profiles by creating an expectation of the earned premiums and compared the result to that calculated by management; and • We assessed the appropriateness of relevant disclosures.
Key observations	<p>We concluded that the existing risk profiles and therefore the earning of premiums continue to be appropriate.</p>

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

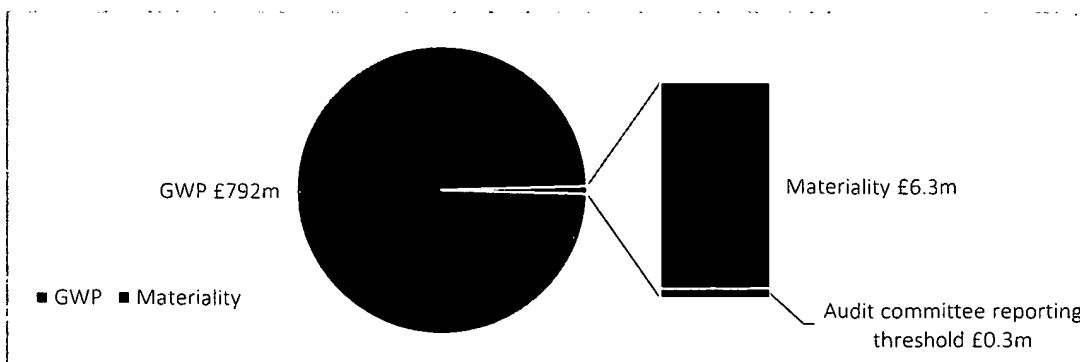
5. Our application of materiality

5.1. 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	£6.3m (FY22: £6.6m)
Basis for determining materiality	0.8% of gross written premiums (GWP) (FY22: 0.8% of gross written premiums)
Rationale for the benchmark applied	<p>The added attention by key stakeholders on gross written premiums reflects the impact of the challenging trading conditions on activity levels within the business, with this reflected as a key performance indicator used by management.</p> <p>We have benchmarked our materiality against similar businesses in the industry, with gross written premiums being a common benchmark used by some of the company's key competitors.</p>



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

5.2. 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 FY23 audit (FY22: 70%). In determining performance materiality, we considered the following factors:

- a. the quality of the control environment and whether we were able to rely on controls for gross written premiums.
- b. the nature, volume and size of misstatements (corrected and/or uncorrected) in the previous audit,
- c. Based on our cumulative audit knowledge that significant changes in the business might affect our ability to forecast misstatements,
- d. factors resulting in higher fraud risk or engagement risk;
- e. factors resulting in a disproportionate number of significant and higher risks of material misstatement;
- f. prior period adjustments.

5.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.3m (FY22 £0.3m), 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.

6. An overview of the scope of our audit

6.1. 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.

6.2. Our consideration of the control environment

Our audit strategy was to rely on controls around the core premiums process. We obtained an understanding of the process and tested relevant controls by inspecting evidence for a number of instances of each control. The audit team additionally obtained an understanding of key controls within the claims and financial statement close processes.

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

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

6.3. Our consideration of the climate-related risks

In planning our audit, we have considered the potential impact of climate change on the entity's business and its financial statements.

The entity continues to develop its assessment of the potential impacts of climate change as explained in the Strategic Report on page 8. As set out in Note 1, the directors do not consider that climate change risk is currently a key source of estimation uncertainty nor that it presents a material impact to the judgements made in the financial statements.

We considered the impact of climate related risks as part of our risk assessment on the account balances and classes of transactions. We also read the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7. 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 contained within the annual report.

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.

8. 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

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

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.

9. 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.

10. 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.

10.1 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, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector.
- 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.
 - 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 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.

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

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 premiums. 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 included the company's regulatory solvency requirements and other regulations set by the Prudential Regulatory Authority and the Financial Conduct Authority.

10.2 Audit response to risks identified

As a result of performing the above, we identified appropriateness of the earnings profile applied to unearned premiums 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 Regulatory 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.

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

Report on other legal and regulatory requirements

11. Opinions on other matters prescribed by the Companies Act 2006

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

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

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

12. Matters on which we are required to report by exception

12.1. 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 of these matters.

12.2. 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 of this matter.

13. Other matters we are required to address

13.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed at the Annual General Meeting by the 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 seven years, covering the years ending 31 December 2017 to 31 December 2023.

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

13.2. 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).

14. 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.



Jamie Weisfeld, ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

25 March 2024

Income Statement for the Year Ended 31 December 2023

Technical account - General business		2023	2022
	Note	£'000	£'000
Earned premiums, net of reinsurance			
Gross premiums written	4	793,048	829,059
Change in the gross provision for unearned premiums	4	19,407	24,503
Earned premiums, net of reinsurance	2	812,455	853,562
Claims incurred, net of reinsurance			
Claims paid, gross amount	5	(372,991)	(396,226)
Change in the provision for claims, gross amount	5	4,744	(3,841)
Claims incurred, net of reinsurance		(368,247)	(400,067)
Net operating expenses	6	(399,571)	(431,843)
Balance on the technical account for general business	4	44,637	21,652
Non-technical account			
Balance on the technical account for general business		44,637	21,652
Investment income	3	6,975	2,226
Investment expenses and charges	3	(147)	(159)
Profit on ordinary activities before taxation		51,465	23,719
Tax on profit on ordinary activities	8	(12,062)	(4,496)
Profit for the financial year		39,403	19,223

The above results were derived from continuing operations.

Statement of Comprehensive Income for the Year Ended 31 December 2023

	2023	2022
	£'000	£'000
Profit for the financial year	39,403	19,223
Total comprehensive income for the year	39,403	19,223

The notes on pages 29 to 44 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2023

Assets		2023	2022
	Note	£'000	£'000
Debtors			
Debtors arising out of direct insurance operations	11	417,263	440,551
Other assets			
Cash at bank and in hand	10	55	133
Cash equivalents	10	165,454	147,925
Prepayments and accrued income			
Deferred acquisition costs	16	173,260	237,815
Other prepayments and accrued income		1,242	1,354
		<u>174,502</u>	<u>239,169</u>
Total assets		<u>757,274</u>	<u>827,778</u>
Liabilities and Equity			
Capital and reserves			
Called-up share capital	15	5,000	5,000
Profit and loss account	15	111,921	94,518
Total shareholder's funds		<u>116,921</u>	<u>99,518</u>
Technical provisions			
Provision for unearned premiums	16	430,991	450,398
Claims outstanding	12	4,835	9,579
		<u>435,826</u>	<u>459,977</u>
Creditors			
Creditors arising out of direct insurance operations	13	174,054	240,500
Other creditors, including taxation and social security	14	28,461	26,983
		<u>202,515</u>	<u>267,483</u>
Accruals		2,012	800
Total liabilities and equity		<u>757,274</u>	<u>827,778</u>

The financial statements on pages 32 to 44 were approved and authorised for issue by the Board of Directors on 25 March 2024 and were signed on its behalf by:



Mike Thomas

Director

Company Number: 06608316

Statement of Changes in Equity for the Year Ended 31 December 2023

	Called-up Share capital £'000	Profit and loss account £'000	Total shareholder's funds £'000
At 1 January 2023	5,000	94,518	99,518
Total comprehensive income for the financial year	-	39,403	39,403
Dividends	-	(22,000)	(22,000)
At 31 December 2023	<u>5,000</u>	<u>111,921</u>	<u>116,921</u>

	Called-up Share capital £'000	Profit and loss account £'000	Total shareholder's funds £'000
At 1 January 2022	5,000	105,295	110,295
Total comprehensive income for the financial year	-	19,223	19,223
Dividends	-	(30,000)	(30,000)
At 31 December 2022	<u>5,000</u>	<u>94,518</u>	<u>99,518</u>

The notes on pages 29 to 44 form an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2023

1. Accounting policies and estimations

Basis of preparation

The Company has adopted FRS 102 and FRS 103 as its financial reporting framework from 1 January 2023, as FRS 101 is no longer available for insurers. This change does not affect the accounting policies, judgements or estimates of the Company, nor does it require any restatement of prior financial results.

The financial statements comply with the recognition, measurement and disclosure requirements of UK GAAP Standards as adopted by the UK, except where amendments are necessary to conform to the Companies Act 2006. The Company has also taken advantage of some of the disclosure exemptions offered by FRS 102, which are detailed below.

- The Company has applied the exemptions available under FRS 102 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 FRSs.

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 a historical cost basis.

BGIL is a private limited company with limited shares and incorporated in England and Wales.

There has been no material impact on the Financial Statements from any amendments effective during the year.

FRS 102 is subject to a periodic review at least every five years. The second periodic review commenced in March 2021 and is under consultation. A Financial Reporting Exposure Draft 'FRED 82 Draft amendments to FRS 102 – Periodic Review' was published in December 2022. The proposed effective date of the amendments contained in FRED 82 is 1 January 2025.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

Accounting policies and estimations (continued)

Going Concern

The financial statements have been prepared on a going concern basis. 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 and additional capital above the regulatory solvency capital requirement to be resilient to a range of stress scenarios. As such, solvency and liquidity positions remain robust.

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:

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

Accounting policies and estimations (continued)

(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 and are recognised at the inception date of the insurance contract.

(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.

Accounting policies

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 and fall under level 2 inputs in terms of the fair value hierarchy 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.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

Accounting policies and estimations (continued)

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 sufficient taxable profit is available against which the temporary differences can be utilised.

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 initially recognised at fair value less any credit losses. Due to the short term nature of BGIL debtors there is no impairment test performed.

(b) 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.

Equity

Ordinary shares are classified as equity.

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.

Climate change is an area of management and regulatory focus, and after review, it was concluded that there is no material short-term impact expected from climate change.

Key sources of estimation uncertainty

(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. Sensitivity analysis can be found on note 9.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

Accounting policies and estimations (continued)

(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 uses 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 any exposure to large claims from the Company. The company does not assess IBNR against actual claims due to the short nature (typically less than one week) of the estimation of claims. There is, though, an exposure to fluctuations in claims frequency. Sensitivity analysis can be found on note 9.

Critical accounting judgements

Earnings profiles

The Company applies earnings profiles to revenue generated in the year. These profiles are based on the typical seasonality of claim costs throughout 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 2023 review concluded that no material change was observed, and as such, the Directors concluded that earnings profiles should remain unchanged.

2. Earned premium

All of the Company's earned premium 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. Earned premium 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 (2022: nil).

4. Particulars of Business

Business is segregated into Heating and Hot water products, Plumbing, Drains and Other. Heating and Hot water products, such as homecare, are affected by weather, which impacts the volume of claims, pricing, and revenue recognition. Plumbing, Drains, and Other areas where products are not affected by cold weather or seasonal trends. This is to show relevant types of business in the company.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

Particulars of Business (continued)

	Heating & Hot water	Plumbing, Drains & Other	Total
	2023	2023	2023
	£'000	£'000	£'000
Gross premiums written	563,353	229,695	793,048
Earned premiums, net of reinsurance	577,227	235,228	812,455
Claims paid, gross amount	(286,095)	(86,896)	(372,991)
Change in the provision for claims, gross amount	4,425	319	4,744
Net operating expenses	(260,903)	(138,668)	(399,571)
Balance on Technical Account	34,654	9,983	44,637

	Heating & Hot water	Plumbing, Drains & Other	Total
	2022	2022	2022
	£'000	£'000	£'000
Gross premiums written	591,186	237,873	829,059
Earned premiums, net of reinsurance	614,838	238,724	853,562
Claims paid, gross amount	(312,625)	(83,601)	(396,226)
Change in the provision for claims, gross amount	(3,311)	(530)	(3,841)
Net operating expenses	(290,550)	(141,293)	(431,843)
Balance on Technical Account	8,352	13,300	21,652

5. Change in the provision of claims

Provision of claims outstanding at the beginning of the year less provision for claims outstanding at the end of the year.

An analysis of the provision at the reporting date is as follows:

	Heating & Hot water	Plumbing, Drains & Others	Total
	2023	2023	2023
	£'000	£'000	£'000
Outstanding Claims at 1st January	7,009	2,570	9,579
Change in the provision for claims, gross amount	(4,425)	(319)	(4,744)
Outstanding Claims at 31st December	2,584	2,251	4,835

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

Change in the provision of claims (continued)

	Heating & Hot water	Plumbing, Drains & Others	Total
	2022	2022	2022
	£'000	£'000	£'000
Outstanding Claims at 1st January	3,698	2,040	5,738
Change in the provision for claims, gross amount	3,311	530	3,841
Outstanding Claims at 31st December	<u>7,009</u>	<u>2,570</u>	<u>9,579</u>

6. Net operating expenses

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

	2023	2022
	£'000	£'000
Customer acquisition costs (all commission)	327,929	418,406
Change in deferred acquisition costs	64,555	4,783
Acquisition costs accounted for during the year (all commission)	<u>392,484</u>	<u>423,189</u>
Administrative expenses	7,087	8,654
	<u>399,571</u>	<u>431,843</u>

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. BGIL has no direct workforce.

7. Auditor's remuneration

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

	2023	2022
	£'000	£'000
Audit of the financial statements	101	102
Services other than the audit of Financial Statements	43	40
	<u>144</u>	<u>142</u>

Services other than the audit of Financial Statements relate to the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR") as required by rule 4.1(2) of the external audit chapter of the PRA rulebook applicable to Solvency II firms.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

8. Tax on profit on ordinary activities

Tax charged in the income statement	2023	2022
Current taxation:	£'000	£'000
United Kingdom corporation tax at 23.5% (2022: 19%)	12,062	4,496
Tax expense in the income statement	<u>12,062</u>	<u>4,496</u>
	2023	2022
	£'000	£'000
Profit on ordinary activities before taxation	51,465	23,719
Tax on ordinary activities at standard UK corporation tax rate 23.5% (2022: 19%)	12,062	4,496
Total income tax expense reported in the income statement	<u>12,062</u>	<u>4,496</u>

No deferred tax arises on the Company's activities (2022: nil). The Company earns its profits in the UK. The UK rate of corporation tax for the year ended 31 December 2023 was 23.5%. The rate of corporation tax will increase to 25% with effect from 1 April 2023.

9. Insurance contract liabilities

Sensitivity analysis

The table below shows the sensitivity as a result of possible movements in key assumptions that is based on a 5 year average with all other assumptions held constant, showing the impact on profit before tax.

5% increase in average claim cost	Impact on profit	
	2023	2022
	£'000	£'000
Heating & Hot water	(14,072)	(15,808)
Plumbing, Drains & Other	(4,340)	(4,195)
	<u>(18,412)</u>	<u>(20,003)</u>
8% increase in average number of claims	Impact on profit	
	2023	2022
	£'000	£'000
Heating & Hot water	(22,515)	(25,293)
Plumbing, Drains & Other	(6,944)	(6,712)
	<u>(29,459)</u>	<u>(32,005)</u>

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

10. Cash and cash equivalents

Cash and 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 are taken through the profit and loss.

Cash and cash equivalents also include £73.4m (2022: £76.0m) of short term money markets funds that are restricted to support the Solvency Capital Requirement of £65.7m (2022: £71.0m).

	2023	2022
	£'000	£'000
Cash	55	134
Cash equivalents	165,454	147,925
	<u>165,509</u>	<u>148,059</u>

11. Debtors arising out of direct insurance operations

Debtors arising out of direct insurance operations comprise

	2023	2022
	£'000	£'000
Premium instalments receivable from policyholders	417,141	436,664
Amounts receivable from group undertakings	122	3,887
	<u>417,263</u>	<u>440,551</u>

Premium instalments receivable from policyholders are funds due from BGSL. Further details can be found on note 20. Amounts receivable from Group undertakings and subsidiaries are funds due from related party transactions. Further details can be found on note 21.

All amounts are due within one year unsecured and interest free.

12. Claims outstanding

Claims outstanding comprise:

	2023	2022
	£'000	£'000
Reported claims, including claims expenses	1,966	7,399
Incurred but not reported ('IBNR') claims, including claims expenses	2,869	2,180
	<u>4,835</u>	<u>9,579</u>

No claims outstanding are discounted.

The number and cost of claims that settle after more than one year is immaterial. For claims under 3 months old, 90% of claims are assumed to settle at cost. A change of 5% for settled claims at cost under 3 months would increase or reduce reported claims by £0.1m (31 December 2022: £0.4m).

The IBNR provision is determined from the average estimated elapse time between claim occurrence and advice to the Company. At 31 December 2023, the average estimated elapse time was 2.5 days (31 December 2022: 2.2 days). A change in the average by one day would increase or reduce IBNR by £0.9m (31 December 2022: £1.1m).

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

13. Creditors arising out of direct insurance operations

The balance comprises amounts payable to British Gas Services Limited:

	2023	2022
	£'000	£'000
Commissions payable on future premium instalments due from policyholders	175,996	241,732
Profit commission and other items	(1,942)	(1,232)
	<u>174,054</u>	<u>240,500</u>

Amounts due to group undertakings are unsecured and interest free.

All amounts are payable within one year.

14. Other creditors including taxation and social security

Other creditors comprise:

	2023	2022
	£'000	£'000
Insurance premium tax	24,714	25,806
Group relief creditor	3,064	496
Other creditors	683	681
	<u>28,461</u>	<u>26,983</u>

The group relief creditor represents the tax charge of £12.1m on the Company's 2023 profits, less a payment on account of £9.0m settled in 2023.

All amounts are payable within one year.

15. Capital and reserves

Called up share capital:

	2023	2022
	£'000	£'000
Issued, allotted and fully paid	<u>5,000</u>	<u>5,000</u>
5,000,100 ordinary shares of £1 each (2022: 5,000,100)		

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 £22.0m (£4.40 per share) was paid on 31 October 2023 to the Company's immediate parent undertaking GB Gas Holdings Limited (2022 interim dividends: £30.0m (£6.00 per share)).

Capital management:

Capital under management at 31 December 2023 was £116.9m, comprising called-up share capital and profit and loss reserve (31 December 2022: £99.5m).

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

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

Capital and reserves (continued)

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 into 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 8.

16. Reconciliation of changes in unearned premiums and deferred acquisition costs

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

Unearned premium reserve ("UPR")

	2023 £'000	2022 £'000
UPR at 1 January	450,398	474,901
Gross premiums written	793,048	829,059
Gross premiums earned	(812,455)	(853,562)
UPR at 31 December	<u>430,991</u>	<u>450,398</u>

Deferred acquisition costs ("DAC")

	2023 £'000	2022 £'000
DAC at 1 January	237,815	242,598
Commission on premiums written	327,929	418,406
Commission on premiums earned	(392,484)	(423,189)
DAC at 31 December	<u>173,260</u>	<u>237,815</u>

17. 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 £138,565 (2022: £133,750).

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:	2023 £'000	2022 £'000
Aggregate emoluments paid to Directors in respect of their qualifying services	139	134
	<u>139</u>	<u>134</u>

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

Related party transactions (continued)

In both the current and prior years, the remuneration of the highest paid Director was less than £200,000, and no further disclosures are required. There are no contributions to pensions or shares exercised. The Company has taken advantage of the FRS 102 disclosure exemption for aggregated key management personnel disclosure.

18. 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:

	2023 £'000	2022 £'000
Cash equivalents	165,454	147,925
Debtors arising out of direct insurance operations	417,263	440,551
Cash at bank and in hand	55	133
Total financial assets	<u>582,772</u>	<u>588,609</u>
	2023 £'000	2022 £'000
Creditors arising out of direct insurance operations	174,054	240,500
Reported outstanding claims, including claims expenses	2,869	7,399
Accruals	2,012	800
Group relief creditor	3,064	496
Other creditors	683	681
Total financial liabilities	<u>182,682</u>	<u>249,876</u>

All financial assets and liabilities are treated at fair value through the profit and loss.

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 £165m (2022: £148m) fall under level 2 inputs in terms of the fair value hierarchy.

19. Interest rate risk

Change in variable	Impact on profit	
	2023 £'000	2022 £'000
Decrease of 100bps in interest rate	(1,471)	(1,589)
Increase of 100bps in interest rate	1,471	1,589

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

20. 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 2023, the gross balance due to the Company by BGSL under this arrangement was £1.9m (31 December 2022: £1.2m due to the Company by BGSL). When profit commission (nil amount) is excluded the net balance due to the Company by BGSL under this arrangement was £1.9m (31 December 2022: £1.2m due to the Company by BGSL).

21. 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 and controlling party 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.

22. Post balance sheet events

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