

Committee	Dated:
Finance	18 September 2018
Subject: City Re Limited – Performance Monitoring	Public
Report of: The Chamberlain	For Information
Report author: Kate Limna – Chamberlain’s Department	

Summary

The City established a Reinsurance Captive Insurance Company (the Captive), City Re Limited, on 24 December 2010, a separate legal structure which allows the City to share in the risks and benefits of insuring its property portfolio, whilst controlling the financial exposure.

This report provides information on the claims experience and Underwriting Profit and Loss Account for the seventh accounting period of the Captive, from 1 April 2017 to 31 March 2018, and advises that a retained profit of £248,161 was achieved.

At its meeting on 19 June 2018, the Board of City Re Limited declared this sum as a dividend for the 2017/18 financial year and this amount will be paid over to the City. The Company holds substantial claims reserves for the 2016/17 accounting period and also an ‘Incurred but not yet Reported’ reserve of £125,000.

The report also provides information on the governance arrangements for the captive and of various matters discussed at the last Board meeting on 19 June 2018, including the adoption of the accounts, the dividend policy with regard to the retained profit and the receipt of the auditors’ Management Letter and Compliance Reports. The auditors’ Management Letter and the signed, audited Directors’ Report and Financial Statements are attached to this report.

Recommendation

Members are asked to note this report.

Main Report

Background

1. The Finance Committee, at its meeting on 26 October 2010, approved the principle of establishing a Reinsurance Captive Insurance Company (the Captive) and, on 24 December 2010, such an entity, City Re Limited, was created, based in Guernsey, where the optimum managerial and administrative expertise is located to operate such a company.
2. The Captive provides a separate legal structure which allows the City to share in the risks and benefits of insuring its property portfolio, whilst controlling the financial exposure. Effectively, the Captive allows the City to participate in its own insurance

placement and to capture underwriting profits with a known capped downside financial risk.

3. Since it was established in 2010, the City Captive has received £1.664 million per annum as the reinsurance premium from the main insurers. When the property insurance was tendered in 2016 it was on the basis that the minimum reinsurance premium payable to the City Captive would be £2.04m and that it would be fixed as a percentage (44.6%) of the annual underlying premium going forward. For the policy year December 2017- December 2018, the reinsurance premium was £2.30m.

Main Characteristics of the Captive

4. The main elements of the Captive are set out below:
 - The City Captive covers the first £250,000 of each and every property claim, effectively leaving the main insurers, RSA and Aviva, to cover any greater losses.
 - From the insuring period (25 December to 24 December) for 2017/18 the City Captive received an initial reinsurance premium of approximately £2.30m (2016/17: £2.096m), against which payments are drawn down.
 - The maximum payable (downside) by the City Captive is limited to £250,000 per annum above the reinsurance premium received from RSA and Aviva i.e. for the 2017/18 insurance period this will be £2.55m i.e. £2.30m plus £250,000 (2016/17: £2.29m).
 - The Captive does not cover any terrorism risk which continues to be covered by RSA and Aviva and re-insured with Pool Re.

Financial Performance for period 1 April 2017 to 31 March 2018

5. The audited Financial Statements for the seventh trading period of the Captive were submitted for approval and signing to a meeting of the Board of Directors held in Guernsey on 19 June 2018, and these are attached to this report. The City of London Corporation's Directors on the City Re Board, (the Chairman of the Finance Committee and the Chamberlain) attended the meeting via a conference call.
6. For the accounting period, City Re Limited achieved a retained profit of £248,161. The accounts also include an 'Incurred But Not Reported' (IBNR) loss reserve of £150,000 (2016/17: £250,000). The Directors consider, on an annual basis, whether to release the IBNR by the close of the following accounting period. At the Board meeting the Directors discussed in detail the level of the IBNR and whether the consistent, prudent but not excessive reserves policy of City Re Ltd remained appropriate. The Directors reviewed historical and current data and agreed to reduce the IBNR from £250,000 to £125,000 and to reconsider the overall level at the next meeting.
7. The Board of Directors declared a dividend of £248,161 in respect of the 2017/18 financial year and this sum will be paid over to the City. The dividends received in the previous financial years are set out below:

2016/17	£161,341
2015/16	£140,984
2014/15	£830,013
2013/14	£92,569
2012/13	£810,883
15 months to 31/03/12	£997,747

The dividend for 2017/18 has increased from 2016/17 and this is partly due to the increase in the reinsurance premium.

Auditor's Management Letter and Company Compliance

8. The Board of Directors of City Re Limited received Moore Stephens's Management Letter which stated that there were no material issues arising during the course of their audit that required being brought to the attention of the Board.
9. As in previous years the audited Directors' Report and Financial Statements will be made available as a distinct item on the City of London Corporation's website following this Finance Committee Meeting.
10. In addition, the Board received a Compliance Monitoring Report from Active Compliance Services Limited showing an overall rating of "satisfactory", which is the highest rating available.

Conclusion

11. At the 19 June Board meeting, the Directors of City Re Limited declared a dividend of £248,161 for the 2017/18 financial year and this amount will be paid over to the City.

Appendices

- Appendix – Auditors' Management Letter and Accounts to 31 March 2018

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