

Committee	Dated:
Finance	10 September 2019
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 eighth accounting period of the Captive, from 1 April 2018 to 31 March 2019. For the first time since inception, the Captive made a loss of £165,174 and that the Board of City Re Limited declared that no dividend will be paid in relation to the 2018/19 financial year.

The City Corporation has provided an additional injection of share capital of £250,000 so that the Captive can meet the solvency ratios required by the Guernsey Financial Services Commission in order to carry out its business.

The report also provides information on the governance arrangements for the Captive and of various matters discussed at the Board meetings on 26 June and 25 July, including the adoption of the accounts, and the receipt of the auditors’ Management and Governance Letter and Compliance Reports.

The auditors’ Management and Governance 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. The City provide share capital of £500,000.
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 and until 2017, 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 and for the current policy year it received some £2.58m.

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 2018/19 the City Captive received an initial reinsurance premium of approximately £2.58m (2017/18: £2.30m), 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 2018/19 insurance period this will be £2.83m i.e. £2.58m plus £250,000 (2017/18: £2.55m).
 - 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 2018 to 31 March 2019

5. At your September 2018 meeting, a report was submitted to your Committee on the performance of City Re Ltd for the year ended 31 March 2018 and advised that the Board had declared a dividend of £248,161 in respect of the 2017/18 financial year. However, before the dividend was released it became clear that the claims position had deteriorated to such an extent that the Board agreed at its meeting on the 18th December to postpone the payment of the dividend and to review the position at its next meeting in March 2019. At the March 2019 Board meeting the directors agreed that the dividend should continue to be withheld.
6. The Corporation's Directors on the City Re Board are the Chairman of the Finance Committee and the Chamberlain. At the Board meeting held on 26 June 2019 (via a conference call), the draft financial statements for the eighth trading period (to 31 March 2019) of the Captive were discussed along with the level of IBNR ('Incurred But Not Reported' loss reserve). The IBNR covers any claims which fall within the period to 31 March 2019 but which have not yet been reported to the insurer.
7. The Board were advised that the external auditors (Moore Stephens) had raised queries and suggested amendments to the accounts based on additional claims information that was received after the end of the financial year, but which related to claims that occurred before the end of the financial year. They required the financial statements to be amended to reflect an additional claims provision of some £271,325, bringing the outstanding loss reserve to some £2.766m.
8. Annually the Directors consider 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. Last year for 2017/18, having reviewed the historical and current data the Directors agreed to reduce the IBNR from £250,000 to £125,000. Following discussions regarding the claims and the accounts, and recognising that setting the IBNR at zero would not be acceptable to the auditors, the Board agreed that for 2018/19 the IBNR should be set at £125,000 and be reconsidered at the next meeting.

9. The amendments required to the financial statements meant that the regulatory solvency margins would not be met. Under the Guernsey Insurance Business (Solvency) Rules 2015, and in order for the Captive to be able to carry out its business there are two solvency ratios that must be met - the Prescribed Capital Requirement (PCR) and the Minimum Capital Requirement (MCR). Specifically, with the increase in the claims provision it is the PCR that would not be met.
10. The Board reviewed a number of scenarios setting out the level of additional capital that would be required depending on the level of IBNR (ranging between £125,000 and £250,000) and how this would affect the solvency ratios for the Captive. The Board agreed that in order to keep the IBNR at £125,000 and to provide a safety margin for the solvency ratio, that an additional capital injection of £250,000 would need to be provided by the City Corporation.
11. In July 2019 a report to the Finance Committee was prepared under Urgency Procedures seeking additional share capital of £250,000 to be met from the Finance Committee's City's Cash contingency for 2019/20. This was approved and reported back to the Finance Committee at its meeting on 23 July 2019.
12. The Board reconvened on 25 July with the Corporate Treasurer acting as the alternate Director for the Chamberlain, to review the financial statements for the year ended 31 March 2019.
13. For the accounting period ending 31 March 2019, City Re Limited retained a loss of £165,174 (2017/18: a profit of £248,161) and the Board of Directors declared that no dividend should be paid in respect of the 2018/19 financial year. The Board noted that the financial statements included a "Subsequent Events" note (note 15) that advised that "*the Board of Directors have requested the shareholders of the Company to increase the paid share capital to £750,000 and to remit the sum of £250,000 to rectify the current position which was received on 18 July 2019.*" The financial statements were duly signed and agreed with the auditors and filed with the Guernsey Financial Services Commission by the statutory deadline of 31 July.
14. When the Captive was set up the City Corporation provided share capital of £500,000 and it was always recognised that there would be "good periods" and not so "good periods". Since its inception, the City Corporation has received dividends totalling some £3.03m and whilst at the present time it is experiencing a "not so good period," it has generated considerable funds for the City which it would not otherwise have received. The table below sets out the dividends received in each financial year since inception.

Year	Dividend
2017/18	£0
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
	£3,033,537

Auditor's Management and Governance Letter and Company Compliance

15. Moore Stephens's have issued their Management and Governance 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
16. 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.
17. 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

18. The Directors of City Re Limited have not declared a dividend for the 2018/19 financial year. Following the receipt of additional claims information that was received after the end of the financial year, but which relates to claims that occurred before the end of the financial year, the financial statements were amended to reflect an additional claims provision of £271,325, bringing the outstanding loss reserve to some £2.766m. This in turn affected the solvency ratios that the Captive needed to meet in order to carry out its business. The City Corporation has therefore provided an additional £250,000 of share capital.

Appendices

- Appendix – Auditors' Management and Governance Letter and Financial Statements to 31 March 2019

Background Papers

July 2019: Urgency (Non Public): City Re Ltd – Request for Additional Share Capital reported to Finance Cttee 23/-7/2019

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