

<b>Committee</b>	<b>Dated:</b>
Finance	13 October 2020
<b>Subject:</b> City Re Limited – Performance Monitoring	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> 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 ninth accounting period of the Captive, from 1 April 2019 to 31 March 2020 and advises that the retained profit for the year is £1,130,616.

At its meeting on 26 June 2020, the Board of City Re Limited declared an interim dividend for the 2019/20 financial year of £500,000 and agreed to review this at their next meeting. The interim dividend has been paid over to the City.

The report also provides information on the governance arrangements for the Captive and of various matters discussed at the Board meetings on 26 June, 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 City 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 provided 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 2018 - December 2019, the reinsurance premium was £2.58m and for the current policy year it received some £2.61m.

### **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 2019/20 the City Captive received an initial reinsurance premium of approximately £2.61m (2018/19: £2.58m), 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 2019/20 insurance period this will be £2.86m i.e. £2.61m plus £250,000 (2018/19: £2.83m).
  - 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 2019 to 31 March 2020**

5. The audited Financial Statements for the ninth trading period of the City Captive were submitted for approval and signing to a meeting of the Board of Directors held in Guernsey on 26 June 2020, 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. The accounts also include an 'Incurred But Not Reported' (IBNR) loss reserve of £125,000 (2018/19: £125,000). 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 agreed that the IBNR should be set at £125,000.
7. For the accounting period, City Re Limited achieved a retained profit of £1,130,616. 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). In determining whether or not to declare a dividend, the Board reviewed a number of scenarios setting out how the level of declared dividend would affect the solvency ratios. The Board agreed to declare an interim dividend of £500,000 and to review the position at its next meeting.
8. 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" and last year the City injected a further £250,000 as share capital. Since its inception, the City Corporation has received dividends totalling

some £3.03m . The table below sets out the dividends received in each financial year since inception.

Year	Dividend
2018/19	£0
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**

9. Moore Stephens are the auditors for City Re Limited and they 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
10. 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.

### **Conclusion**

11. At their Board meeting on 26 June 2020, the Directors of City Re Limited declared an interim dividend of £500,000 for the 2019/20 financial year, which has been paid over to the City. The Board will review the position at its next meeting.

### **Appendices**

- Appendix – Auditors' Management and Governance Letter and Financial Statements to 31 March 2020

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