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| <b>Committee:</b><br>Finance  | <b>Dated:</b><br>19 September 2023 |
| <b>Subject:</b> City Re Limited – Performance Monitoring  | <b>Public</b>                      |
| <b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b> | All                                |
| <b>Does this proposal require extra revenue and/or capital spending?</b>                                  | N/A                                |
| <b>If so, how much?</b>   | £N/A                               |
| <b>What is the source of Funding?</b>   | N/A                                |
| <b>Has this Funding Source been agreed with the Chamberlain’s Department?</b>                             | N/A                                |
| <b>Report of:</b> The Chamberlain   | <b>For Information</b>             |
| <b>Report author:</b> Kate Limna  |                                    |

### Summary

The City Corporation 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 twelfth accounting period of the Captive, from 1 April 2022 to 31 March 2023 and advises that the retained loss for the year is £60,430 (20221/22: retained profit of £258,675).

At its meeting on 4 July 2023, the Board of City Re Limited agreed that no dividend should be declared at the present time but that this would be reviewed at the next meeting in December.

Included in this report is information on the governance arrangements for the Captive and of various matters discussed at the Board meeting on 4 July, including the adoption of the accounts, and the receipt of the auditors’ Management and Governance Letter, which states there were no material issues arising during the course of their audit.

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). 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 initial 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. From 2010 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 2021 it was on the basis that the minimum reinsurance premium payable to the City Captive would be £2.04m which would then be fixed as a percentage (34.41%) of the annual underlying premium going forward. For the policy year 2021/22, the reinsurance premium was £2.25m. For policy year 2022/23 it is £2.45m.

### **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 2022/23 the City Captive received an initial reinsurance premium of approximately £2.45m (2021/22: £2.25m), 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 2022/23 insurance period an amount of £2.70m i.e. £2.45m plus £250,000 (2021/22: £2.50m).
  - 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 2022 to 31 March 2023**

5. The audited Financial Statements for the twelfth trading period of the City Captive were submitted for approval and signing to a meeting of the Board of Directors held in Guernsey on 4 July 2023. They 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) along with the Corporate Treasurer attended the meeting in person.
6. The accounts also include an 'Incurred But Not Reported' (IBNR) loss reserve of £250,000 (2021/22: £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 overall level of the IBNR be retained at £250,000 supported by past year analysis of loss development and nature of reinsurance protection.

7. For the accounting period, City Re Limited made a loss of £ 60,430 (2021/22: a profit of £ 258,675). Under the Companies (Guernsey) Law 2008 and the Guernsey Insurance Business (Solvency) Rules 2015, and in order for any 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). The Board noted that no breaches of solvency had occurred and that City Re continued to meet the solvency test.
8. The Board considered whether or not to declare a dividend. After due consideration of the finances and solvency position of City Re, the Board agreed that no dividend would be declared at this time and that consideration to a dividend would be given at the next meeting, depending on the loss developments.
9. When the Captive was set up the City Corporation provided share capital of £500,000. It was always recognised that there would be “good periods” and “not so good periods”. In 2018/19 the City injected a further £250,000 as share capital (total share capital is now £750,000). Since its inception, the City Corporation has received dividends totalling some £5.03m. The level of dividend demonstrates the value for money in our insurance placement as without a captive the net premium costs may have been higher and the City would not have received the dividends. The table below sets out the dividends received in each financial year since inception.

| <b>Year</b>           | <b>Dividend</b>   |
|-----------------------|-------------------|
| 2021/22               | £500,000          |
| 2020/21               | £1,000,000        |
| 2019/20               | £500,000          |
| 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          |
|                       | <b>£5,033,537</b> |

### **Auditor’s Management and Governance Letter and Company Compliance**

10. 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.

11. 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**

12. At their Board meeting on 4 July 2023, the Directors of City Re Limited
  - confirmed that the IBNR should be set at £250,000;
  - noted that City Re continued to meet the solvency test; and
  - agreed that no dividend should be declared but that the matter would be kept under review.

### **Appendices**

- Appendix – Auditors' Management and Governance Letter and Financial Statements to 31 March 2023

### **Kate Limna**

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