

Committee(s):	Date:
Finance	22 July 2014
Subject: City Re Limited - Performance Monitoring	Public
Report of: The Chamberlain	For Information

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. In the event of an 'average' year's claims experience it was anticipated that the Captive would achieve an underwriting profit of £600,000.

Due to favourable claims experience in the financial year 2012/13, a net profit of £810,883 was achieved. The Company subsequently declared a dividend of this amount for distribution to the City.

This report provides information on the claims experience and Underwriting Profit and Loss Account for the third accounting period of the Captive, from 1 April 2013 to 31 March 2014, and reveals that a retained profit of £92,569 was achieved.

The Board declared this sum as a dividend for the 2013/14 financial year and this amount will be paid over to the City when the current fixed term deposit with Barclays Plc ends. The Company holds substantial claims reserves for the 2013/14 accounting period and also an 'Incurred but not yet Reported' reserve of £250,000. Whilst the dividend is significantly less than in previous years, it is mainly due to one significant claim, a further potential claim and an increase in water damage claims

The report also provides information on the governance arrangements for the captive and of various matters discussed at the last Board meeting on 24 June 2014, 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 signed, audited Directors' Report and Financial Statements are attached to this report.

Recommendation

The Committee is recommended to note the report.

Main Report

Introduction

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. Members may recall that 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.

Main Characteristics of the Captive

3. 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.
 - The City Captive receives a reinsurance premium of approximately £1.7m per annum from RSA and Aviva.
 - The maximum payable (downside) by the City Captive is limited to £250,000 per annum above the reinsurance premium received from RSA and Aviva.
 - Based on an actuarial analysis (undertaken in 2010) of the last 10 years' claims experience of the City, the value of claims likely to be met by the Captive in an average year would be £1.1m.
 - The Captive does not cover any terrorism risk which continues to be covered by RSA and Aviva and re-insured with Pool Re.
4. The potential range of financial implications for the City, based on the actuarial analysis of past claims experience, was summarised as follows:

	Worst Case £000	Average Year £000	'Good Year' £000
Reinsurance Premium received by Captive Net of Charge Payable to RSA	(1,660)	(1,660)	(1,660)
Claims Payable by Captive	1,910	1,060	860
(Profit)/Loss	250	(600)	(800)

5. Based on these assumptions and previous years' experience, a projected saving of £750,000 was initially included in the City's financial plans; following notification of one significant claim, a further potential large claim, and an increase in water damage claims, this was subsequently decreased to £250,000 for 2013/14.

Financial Performance for period 1 April 2013 to 31 March 2014

6. The audited Financial Statements for the third trading period of the Captive were submitted for approval and signing to a meeting of the Board of Directors held in Guernsey on 24 June 2014, and these are attached to this report. The meeting was attended by the City of London Corporation's Directors on the City Re Board, i.e. the Chairman of the Finance Committee and the Corporate Treasurer as an 'alternate' for the Chamberlain.
7. For the accounting period, City Re Limited achieved a retained profit of £92,569. Whilst this is significantly less than in previous years, it is mainly due to one significant claim, a further potential claim and an increase in water damage claims. The Directors believe this is an unusual year and expect the claim experience to return to the level of previous years. The accounts also include an 'Incurred But Not Reported' (IBNR) loss reserve of £250,000 which is equal to one maximum loss applicable to the 2013/14 underwriting period that commenced on 25 December 2013. This is in line with the company's reserves policy which is that "for each annual underwriting period, an IBNR equal to one maximum loss of £250,000 is established. Consideration will be given to release the IBNR by the close of the following accounting period".
8. The Board of Directors declared a dividend of £92,569 in respect of the 2013/14 financial year and this sum will be paid over to the City of London Corporation shortly when the current fixed term deposit cash investment with Barclays Plc in Guernsey expires, and will accrue to your Committee's 2014/15 financial outturn. For the City's previous financial year 2012/13, the dividend received from City Re Limited amounted to £810,883 and for the fifteen month period from 24 December 2010 to 31 March 2012, the dividend was £997,747.

Auditor's Management Letter and Company Compliance

9. The Board of Directors received a presentation from the City Re Limited auditors, Lince Salisbury Limited and raised a number of questions concerning the Company's financial performance and the accounts. The Board also noted the Management letter which stated that there were no issues arising during the course of their audit that required being brought to the attention of the Board.
10. The Board of Directors and external auditors also confirmed that there was no objection to the audited Directors' Report and Financial Statements being in the public domain, and these will be made available as a distinct item on the City of London Corporation's website following this Finance Committee Meeting.
11. In addition, the Board received a Compliance Monitoring Report from Active Compliance Services Limited which showed an overall rating of "satisfactory", which is the highest rating available.

Performance 2014/15

12. Further reports on the on-going financial performance of City Re Limited will be submitted to the Finance Committee as appropriate.

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