

Committee: Finance Committee	Date: 19 July 2016
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. In the event of an ‘average’ year’s claims experience, it was anticipated that the Captive would achieve an underwriting profit of £600,000.

This report provides information on the claims experience and Underwriting Profit and Loss Account for the fourth accounting period of the Captive, from 1 April 2015 to 31 March 2016, and reveals that a retained profit of £140,984 was achieved.

At its meeting on 20 June 2016, the Board of City Re Limited declared this sum as a dividend for the 2015/16 financial year and this amount will be paid over to the City. The Company holds substantial claims reserves for the 2015/16 accounting period and also an ‘Incurred but not yet Reported’ reserve of £250,000.

The report also provides information on the governance arrangements for the captive and of various matters discussed at the last Board meeting on 20 June 2016, 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.

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 i.e. £1.95million.
 - 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. Based on previous years' experience, a projected saving of £750,000 was included in the City's financial plans for 2015/16. However when the 2015/16 financial plans were revised in the autumn, this was reduced to £100,000.

Financial Performance for period 1 April 2015 to 31 March 2016

5. The audited Financial Statements for the fifth trading period of the Captive were submitted for approval and signing to a meeting of the Board of Directors held in Guernsey on 20 June 2016, and these are attached to this report. The meeting was due to be attended by the City of London Corporation's Directors on the City Re Board, i.e. the Chairman of the Finance Committee and the Chamberlain, however, inclement water prevented the Chamberlain from attending.
6. At the meeting it was proposed that Mr Mayhew, as replacement Chairman (to Mr Chadwick) of the Finance Committee be appointed to the Board of City Re. subject to completion of the necessary due diligence requirements and approval by the Guernsey Financial Services Commission.
7. For the accounting period, City Re Limited achieved a retained profit of £140,984. 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 2015/16 underwriting period that commenced on 25 December 2015. 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 £140,984 in respect of the 2015/16 financial year and this sum will be paid over to the City. The dividends received in the previous financial years are set out below:

2014/15	£830,013
2013/14	£92,569
2012/13	£810,883
15 months to 31/03/12	£997,747

The dividend for 2015/16 is significantly less than in 2014/15: this is mainly due to three claims over £100,000 (one of which is over £200,000) and a couple of claims at around £50,000.

Auditor's Management Letter and Company Compliance

9. The Board of Directors of City Re Limited received a presentation from Moore Stephens. They 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 showing an overall rating of "satisfactory", which is the highest rating available.

Conclusion

12. At the 20 June Board meeting, the Directors of City Re Limited declared a dividend of £140,984 for the 2015/16 financial year and this amount will be paid over to the City.

Appendices

- Appendix 1 – Auditors' Management Letter and Accounts to 31 March 2016

Kate Limna

Corporate Treasurer

T: 020 7332 3952

E: kate.limna@cityoflondon.gov.uk