

<b>Committee</b>	<b>Dated:</b>
Finance	25 July 2017
<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. 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 sixth accounting period of the Captive, from 1 April 2016 to 31 March 2017, and reveals that a retained profit of £161,341 was achieved. This is lower than the average level of retained profit, mainly due to a number of flood/water damage losses that occurred in several insured locations following a period of torrential rain and thunderstorms in London on 23 June 2016

At its meeting on 19 June 2017, the Board of City Re Limited declared this sum as a dividend for the 2016/17 financial year and this amount will be paid over to the City. The Company holds substantial claims reserves for the 2016/17 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 19 June 2017, 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.
3. Since it was established in 2010, 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 of the annual premium going forward. Following the tender process the reinsurance premium will be 44.6% of the annual premium.

### **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 2016/17 the City Captive receives a reinsurance premium of approximately £2.096m, against which payments are drawn down. In future years the City Captive will receive 44.6% of the annual premium 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. for the 2016/17 insurance period this will be £2.29 million. (£2.096M plus £250,000).
  - The Captive does not cover any terrorism risk which continues to be covered by RSA and Aviva and re-insured with Pool Re.
5. Based on previous years' experience, a projected saving of £750,000 was included in the City's financial plans for 2016/17. However when the 2016/17 financial plans were revised in the autumn, this was reduced to £200,000.

### **Financial Performance for period 1 April 2015 to 31 March 2016**

6. The audited Financial Statements for the sixth trading period of the Captive were submitted for approval and signing to a meeting of the Board of Directors held in Guernsey on 19 June 2017, 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 Chamberlain.
7. For the accounting period, City Re Limited achieved a retained profit of £161,341. 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 2016/17 underwriting period that commenced on 25 December 2016. 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 £161,341 in respect of the 2016/17 financial year and this sum will be paid over to the City. The dividends received in the previous financial years are set out below:

2015/16	£140,984
2014/15	£830,013
2013/14	£92,569
2012/13	£810,883
15 months to 31/03/12	£997,747

The dividend for 2016/17 has slightly increased from 2015/16 but is still less than the average 2014/15 dividend. This is mainly due to a number of flood/water damage losses that occurred in several insured locations following a period of torrential rain and thunderstorms in London on 23 June 2016.

### **Auditor's Management Letter and Company Compliance**

9. The Board of Directors of City Re Limited received Moore Stephens 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. 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.
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 19 June Board meeting, the Directors of City Re Limited declared a dividend of £161,341 for the 2016/17 financial year and this amount will be paid over to the City.

### **Appendices**

- Appendix 1 – Auditors' Management Letter and Accounts to 31 March 2017

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