

Committee	Dated:
Finance	21 September 2021
Subject: City Re Limited – Performance Monitoring	Public
Report of: The Chamberlain	For Decision
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.

This report provides information on the claims experience and Underwriting Profit and Loss Account for the tenth accounting period of the Captive, from 1 April 2020 to 31 March 2021 and advises that the retained profit for the year is £682,504.

At its meeting on 14 June 2021, 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. A further meeting was held on 8 September and the Board declared an interim dividend for the 2020/21 financial year of £500,000; they also agreed to review this at their next meeting

Included in this report is information on the governance arrangements for the Captive and of various matters discussed at the Board meetings on 14 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.

The report also provides an update on the appointment of the City Corporation’s Directors to City Re Limited, following the retirement of the Chamberlain (Dr Peter Kane) and the appointment of Mr Ingham Clark as Chairman of the Finance Committee. Members are asked to agree that the Deputy Chairman of the Finance Committee should act as the alternate Director for the Chairman of the Finance Committee

Recommendation

Members are asked

- (i) to note this report; and
- (ii) confirm that going forward the Deputy Chairman of the Finance Committee should act as the alternate Director for the Chairman of the Finance Committee.

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 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. 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, for policy year 2019/20 the reinsurance premium was £2.61m and for 2020/21 it is £2.65m.

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 2020/21 the City Captive received an initial reinsurance premium of approximately £2.65m (2019/20: £2.61m), 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 2020/21 insurance period this will be £2.9m i.e. £2.65m plus £250,000 (2019/20: £2.86m).
 - 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 2020 to 31 March 2021

5. The audited Financial Statements for the tenth trading period of the City Captive were submitted for approval and signing to a meeting of the Board of Directors held in Guernsey on 14 June 2021, 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. At the meeting it was proposed that Mr Ingham Clark, as replacement Chairman (to Mr Mayhew) of the Finance Committee be appointed to the Board of City Re. It was further proposed that Mrs Al-Beyerty, as the newly appointed Chamberlain be appointed to the Board of City Re. Both appointments are subject to completion

of the necessary due diligence requirements and approval by the Guernsey Financial Services Commission. Mr Ingham Clark has completed his due diligence documentation and this has been approved by the GFSC. The documentation for Mrs Al-Beyerty has also been completed and at the time of writing, we are awaiting confirmation from the GFSC.

7. For the City's Directors, there is an alternate Director who can attend the Board meetings in the absence of either Director. Previously, the Corporate Treasurer has been the nominate alternate Director for both of the City's directors and will continue to be the alternate Director for the Chamberlain. However, going forward, it is proposed that the alternate Director for the Chairman of the Finance Committee should be the Deputy Chairman of the Finance Committee. As with the appointment of any Director, the appointment of an alternate Director is subject to the completion of the necessary due diligence requirements and approval by the Guernsey Financial Services Commission. As past Chairman and previously a Director of City Re, the current Deputy Chairman (Mr Mayhew) has passed the necessary checks and can be appointed as an alternate Director.
8. The accounts also include an 'Incurred But Not Reported' (IBNR) loss reserve of £125,000 (2019/20: £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.
9. For the accounting period, City Re Limited achieved a retained profit of £ 682,504 (2019/21: £1,130,616). Under the Companies (Guernsey) Law 2008 and 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). The Board noted that no breaches of solvency had occurred and that City Re continued to meet the solvency test.
10. 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 financial performance at that time.
11. A further meeting was held on 8 September and after considering the finances and solvency position, the Board agreed to declare an interim dividend of £500,000 and to consider the position again at the next meeting
12. 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 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 £3.53m. 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.

Year	Dividend
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
	£3,533,537

Auditor's Management and Governance Letter and Company Compliance

13. 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
14. 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.

Update on Captive Markets in London

15. When reporting on City Re Ltd last year a Member raised a query as to why the Corporation had not sought to place this business in London, given the City's role as a champion of the UK's Financial Services sector. Members were advised that captive insurance is not offered in London which is why we have placed our business within the leading jurisdiction for captives which allows the City Corporation to discharge the value for money test on placing its insurance business.
16. A similar point was raised in Court in December 2020. By way of an update the Director of Innovation & Growth has advised that the broking community advises companies to place their captives in the most efficient way including capital requirements. However the City is supporting the LMG, International Underwriting Association (IUA) and others in advocating for onshoring captives, using them as part of the competitiveness agenda, and to have them included in the response to Solvency 2. Even if our lobbying is successful it will take some time for a new regime to be implemented, allowing captives in London to thrive.
17. The Board of City Re Limited have noted that should legislation change in relation to Captive Insurance then the Company may seek to move the domicile of the Company to the UK.

Conclusion

18. At their Board meeting on 14 June 2021, the Directors of City Re Limited

- confirmed that the IBNR should be set at £125,000;
- noted that no breaches of solvency had occurred and that City Re continued to meet the solvency test; and
- agreed that no dividend should be declared at the present time but that this would be reviewed at the next meeting.

At a subsequent Board meeting (held on 8 September) the Directors declared an interim dividend of £500,000 and agreed to review the position at the next meeting.

Appendices

- Appendix – Auditors' Management and Governance Letter and Financial Statements to 31 March 2021

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