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| Committee | Dated: |
| Finance | 20 September 2020 |
| Subject: City Re Limited – Performance Monitoring | Public |
| Report of: The Chamberlain | For Discussion/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.

This report provides information on the claims experience and Underwriting Profit and Loss Account for the eleventh accounting period of the Captive, from 1 April 2021 to 31 March 2022 and advises that the retained profit for the year is £258,675 (2020/21: £682,504) .

At its meeting on 4 July 2022, 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 on 20th September; a verbal update will be provided at today’s meeting.

Included in this report is information on the governance arrangements for the Captive and of various matters discussed at the Board meetings on 4 July, including the adoption of the accounts, and the receipt of the auditors’ Management and Governance Letter.

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 elections in March 2022 and the appointment of a new Chair (Henry Colthurst) and Deputy Chair (Randall Anderson) of the Finance Committee.

Recommendation

Members are asked

- (i) 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) 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, for 2020/21 it was £2.65m and for 2021/22 it is £2.25m.

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 2021/22 the City Captive received an initial reinsurance premium of approximately £2.25m (2020/21: £2.65m), 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 2021/22 insurance period this will be £2.5m i.e. 2.25m plus £250,000 (2020/21: £2.90m).
 - 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 2021 to 31 March 2022

5. The audited Financial Statements for the eleventh 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 2022, and these are attached to this report. The City of London Corporation's Directors on the City Re Board, (the Chair of the Finance Committee and the Chamberlain) along with the Corporate Treasurer attended the meeting in person.
6. At the meeting, the Board noted that the previous Chair and Deputy Chair of the Finance Committee had been unsuccessful in seeking re-election to the City of London Court of Common Council and as such we no longer eligible to be a

Director and Alternate Director respectively, as a representative of the City of London Corporation.

7. The Board proposed that Henry Colthurst, as Chair of the Finance Committee was elected to the Board and Randall Anderson, as Deputy Chair of the Finance Committee be elected as the alternate Director. Both appointments are subject to completion of the necessary due diligence requirements and approval by the Guernsey Financial Services Commission.
8. For the City's Directors, there is an alternate Director who can attend the Board meetings in the absence of either Director. The Corporate Treasurer is the nominate alternate Director for the Chamberlain and the Deputy Chair of the Finance Committee is the alternate Director for the Chair
9. The accounts also include an 'Incurred But Not Reported' (IBNR) loss reserve of £125,000 (2020/21: £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 but that the actuarial formula for setting the figure should be revisited.
10. For the accounting period, City Re Limited achieved a retained profit of £ 258,675 (2020/21:£ 682,504). 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.
11. 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.
12. A further meeting is being held on 20 September and a verbal update will be provided to today's meeting.
13. 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 £4.53m. 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 |
|-----------------------|-----------------|
| 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 |
| | £4,533,537 |

Auditor's Management and Governance Letter and Company Compliance

14. 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
15. 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

16. At their Board meeting on 4 July 2022, 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.

A verbal update will be provided following the City Re Board meeting on 20 September.

Appendices

- Appendix – Auditors' Management and Governance Letter and Financial Statements to 31 March 2022

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