



# Report and Accounts 2020

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Western Provident Association



Western Provident Association Limited (WPA) is a company limited by guarantee; it is domiciled, incorporated and registered in England and Wales under company number 00475557. The Directors here present their annual report together with the audited consolidated financial statements for the year ended 31 December 2020.

These Report and Accounts have been prepared by WPA on behalf of itself and its subsidiaries within the WPA Group for information only. Accordingly, WPA and all of its Directors, members and affiliates exclude liability for any reliance upon the Report and Accounts arising from any statement or omission.

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# Chairman's Statement

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The Rt Hon The Earl  
of Cromer

I am pleased to report that throughout one of the most challenging years in WPA's 120 year history we have continued to serve our customers with the excellence and commitment that fully demonstrates our principle of treating our customers as we would wish to be treated ourselves.

The Board was unanimous in approving rebates of £7.4m to our customers and committing not to profit from this dreadful pandemic. It was quite simply the right thing to do. The NHS and private hospital groups have delivered exceptional care throughout the last year and saved many thousands of lives. Although the requisition of private hospitals was disruptive for private patients it was unquestionably the right decision for the health of the nation. It was important that our customers with serious conditions were able to access treatment throughout and we were pleased to see private care reopen to elective procedures in the late summer.

Looking forward we expect the modest surplus reported in the 2020 accounts to be used to offset higher than normal claims in 2021 and thus fulfil the commitment we made at the outset of the pandemic.

Our people have been a credit to WPA throughout 2020 and I must take the opportunity to thank them for their outstanding flexibility and adaptability to work from home for the majority of the year. Customer service has remained excellent throughout, as evidenced by feedback directly from our customers and external review sites. Given the circumstances this is a truly remarkable achievement.

During the year the Board welcomed Anne Obey OBE and Rosalind Johnson as Non-Executive Directors. We also said farewell and thank you to Martin Kramer who retired in December 2020 after a little over a decade of loyal service and outstanding contribution.

The outlook for 2021 is another turbulent year. With a strong capital base, a dedicated team and by remaining true to our purpose of enabling our customers to access the best possible healthcare, I am confident that WPA will stand resolute.

A handwritten signature in black ink, appearing to read 'Cromer', written over a horizontal line.

**The Rt Hon The Earl of Cromer** *Chairman*  
24 March 2021

# Chief Executive's Review

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Nathan Irwin

2020 was a year that will live long in the memory and one where the majority of the nation was glad to see it confined to the history books. The pandemic is still far from over, but with the vaccination programme continuing at speed hopefully 2021 will conclude in a far better place than it began.

From WPA's perspective the most concerning aspect was the reduced availability of private healthcare in the second quarter of 2020. Whilst treatment for serious conditions continued, elective and non-urgent treatment were severely limited. Our purpose is to enable our customers to access the best possible healthcare and with this proving difficult we felt it entirely appropriate to provide a premium rebate in April and again in June. In total this amounted to £7.4m and demonstrated that WPA treats customers as we would wish to be treated ourselves.

In addition to the rebate, we also rapidly introduced other measures to support our customers: remote GP services were included in all retail and commercial products; mental health support was enhanced; cover was included for virtual consultations and flexible options were provided for customers during a period of financial stress.

I am immensely proud and grateful to the WPA team who worked from kitchen tables, spare bedrooms and studies to make sure that we continued to deliver excellent customer service in the most challenging of circumstances.

At the outset of the pandemic our Board committed the Association not to profit from the pandemic. The 2020 financial results show a claims ratio of 74.5% (2019: 80.2%) and a combined ratio of 98.2% (2019 103.1%). The claims in Q2 were much lower than expected and then started to increase such that by late summer were back close to normal levels. The contribution from the insurance business of £1.8m will effectively offset higher expected claims in 2021 as people seek treatment for postponed procedures. At present we consider we have achieved an appropriate balance of rebating premium whilst enabling sustainable premium increases for policyholders in an environment where claims experience will be volatile.

The investment portfolio returned £0.6m in 2020. Increases in equity values in primary markets were offset by a reduction in the values of the Group's properties and strategic equity holding. Overall the business returned a post tax profit of £1.5m. Importantly the business was able to modestly increase customer numbers during 2020, a key success particularly given the impact of employment levels in the corporate sectors.

## Chief Executive's Review continued

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Despite the challenges of Covid-19 and having the majority of the workforce working from home we made excellent progress against our strategic objectives. In the autumn we enabled the majority of our customers to make a claim digitally and receive instant authorisation to get their treatment journey started. The WPA Health app is the first in the UK marketplace and possibly worldwide to enable this contemporary customer experience.

The outlook for 2021 is mixed; short-term the disruption as a result of the pandemic will continue, but I expect that in the coming months the UK economy will rebound unshackled by the restrictions of Brexit and Covid-19. In a rising economy, coupled with an active strategy to demonstrate our credentials, we are confident that WPA will remain healthy for the benefit of all our customers.



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**Nathan Irwin** *Chief Executive*  
24 March 2021

# Strategic Report

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Western Provident Association Limited is a company limited by guarantee; it is domiciled, incorporated and registered in England and Wales under company number 00475557. The Directors here present their annual report together with the audited consolidated financial statements for the year ended 31 December 2020.

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## Strategy

The WPA strategy remains unchanged – the pursuit of quality in all that we do. As a not-for-profit organisation we are not entangled with the conflict between shareholder returns and long-term investment decisions and consequently have continued to invest in our people and processes, which for our customers means the delivery of excellent service. The omission of profit from our strategic objectives coupled with industry leading technology provides a compelling customer proposition, differentiating us from our competitors.

Our status as a company limited by guarantee is not common in today's financial services marketplace. We are reliant solely on our own resources, with no readily available access to external funding or the ability to raise share capital. Consequently, our resources over the last century have been carefully managed and our strength is evident in the Statement of Financial Position.

It is important to distinguish between the three primary activities of the WPA Group: medical insurance, healthcare administration and management of the investment portfolio. The insurance and healthcare administration operations include all interactions with current customers and we aim to break-even on our customer relationships in the medium-term.

The investment portfolio has the modest objective of maintaining the real value of the portfolio. Capital preservation, not growth, is paramount. Assets backing in-force business, as measured on a Solvency II Own Risk and Solvency Assessment (ORSA) basis, are held in UK Government stocks. Assets in excess of the ORSA requirements are held in a diversified range of investments across different sectors and geographies. This investment strategy is designed to demonstrate the unquestionable financial stability of the business, whilst providing confidence that supports sustainable relationships in the long-term. As a general insurer it is necessary to recognise that our financial strength supports, but does not subsidise, the promises made to our current customers.

# Strategic Report continued

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## Review of 2020

2020 was dominated by the impact of the Covid-19 pandemic. In late March 2020 the UK Government effectively requisitioned the majority of private healthcare facilities in the UK to treat patients suffering from Coronavirus. Whilst urgent care for private patients was able to continue, elective and non-urgent care was effectively postponed. We responded immediately to this situation, committing to all of our customers that we would not profit from the pandemic. As treatment levels dropped we demonstrated our commitment through providing rebates to our customers in April and again in June 2020. As the first wave of the pandemic abated claims rebounded quickly with customers able to find access to treatment. By the end of the year claims had returned to normal levels.

Net premium income for the year has decreased by £8.4m in comparison to 2019 due to Covid-19 premium rebates and a greater proportion of revenue being deferred into 2021 in line with our accounting policies. However, underlying customer numbers have remained stable. Demand for health insurance was strong in the second half of the year, but correspondingly we observed reductions in numbers on cover on corporate health schemes as the economic impact of the pandemic translated through to reduced levels of employees on cover with our customers. Operationally the business has performed admirably through a very challenging year, thanks to the hard work and dedication of our people. As the business responded to the pandemic changes were required to planned operational expenditure. Overall administration costs decreased from £27.2m to £26.0m.

Two facultative reinsurance contracts and associated primary insurance contracts have been reclassified as a single contract due to their interdependence. As a result, certain comparative figures have been restated. Whilst premium receivable, reinsurance premium payable, claims paid and reinsurer's share of claims paid are restated, there is no impact on net earned premium, net claims, loss or reserves.

The investment return for the year was commensurate with a low risk portfolio. When stock markets around the globe crashed in March 2020 we were largely immunised from these value reductions and conversely experienced limited upside when equity markets rebounded. The portfolio yielded a net return of 0.3% (£0.6m) for the year, with the detractors being a UK strategic equity holding coupled with the write down of the Group's UK property assets. The target return of the investment portfolio is to preserve the real value by reference to the CPI measure of inflation. In 2020 the return of 0.3% compared to CPI of 0.6%, as a result of returns on low risk investments yielding virtually zero.

The 2020 claims ratio of 74.5% (2019: 80.2%) was lower than planned as a result of the lower than planned claims and is the driver behind the underwriting contribution of £1.8m and profit before tax of £2.1m. We expect claims will increase markedly in 2021 as a result of pent up demand for healthcare, where procedures have been postponed either as a result of healthcare availability or customers electing to delay procedures to when the Covid-19 risks are reduced. We consider the rebates issued to date are a reasonable estimate of the amount required to fulfil our commitment not to profit from the pandemic, but will continue to observe experience throughout 2021 and are prepared to make further rebates, if appropriate.

The business remains well capitalised with a Solvency Capital Requirement ratio of 447% (2019: 557%). The reduction is a result of increased equities within the investment portfolio as at 31 December 2020 compared to 2019.

### Key performance indicators

Key performance indicators (KPIs) are reported to the Directors and Senior Managers each month as part of the regular management reporting and form an important element of the control environment. They indicate where actual experience is varying from plan and the prior year and, with our knowledge of our industry and market, help us to benchmark our performance. KPIs are for management purposes and therefore do not necessarily follow statutory accounting rules.

An extract of some of the KPIs reported to the Board each month are as follows:

#### Premium receivable

**£110.7m** (2019: £109.0m)

Premium receivable, before the deduction of premium rebates for 2020.

#### Combined operating ratio

**98.2%** (2019: 103.1%)

Ratio of net insurance claims and operating and administrative expenses to net insurance and administration income.

#### Solvency II SCR coverage

**4.5** (2019: 5.6 unaudited)

Available regulatory capital divided by standard formula assessment.

#### Net investment return

**0.3%** (2019: 0.4%)

Return as a percentage of portfolio value, net of fees.

#### Claims authorised

**97.2%** (2019: 97.9%)

Percentage of properly presented claims authorised.

#### Customer Numbers

**303,167** (2019: 301,162)

#### Claims Ratio

**74.5%** (2019: 80.2%)

Ratio of net insurance claims to net insurance premium.

The Company takes the exemption available under s414CA(4)b Companies Act 2006, from including a non-financial information statement in the Strategic Report.

### Future outlook

The two key components of the outlook for WPA are the UK economy and the private healthcare market. Customers numbers are expected to expand and contract with the employment levels of our customers. It remains to be seen whether the extension of the furlough scheme until the end of September will preserve jobs on a permanent or temporary basis and whether the planned relaxations to the Covid-19 restrictions will enable the UK economy to quickly rebound to its pre-pandemic levels. We do not anticipate a direct impact to the business as a result of the UK's departure from the European Union, but we will experience the secondary effects as individuals and businesses experience success or otherwise from the Brexit arrangements.

# Strategic Report continued

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## Future outlook continued

Private healthcare availability is expected to remain at least at normal levels throughout 2021 and may increase above normal levels when the full beneficial impact of the vaccine roll out comes into effect. Healthcare staff in both the NHS and private sectors have been a credit to the nation and worked incredibly hard to save thousands of lives. They deserve a well earned break once the pandemic abates. The interaction between the NHS and the private sector is key to determining the level of capacity within the private sector. It is our expectation that a similar level of capacity to that currently utilised will be retained by the NHS which enables private treatment to continue at normal or slightly higher than normal levels of activity.

Overall the Board are positive for the outlook for WPA. We have demonstrated the resilience of the business throughout the Covid-19 pandemic and by remaining dedicated to our purpose of enabling our customers to access the best possible healthcare we are confident that the business will continue to be successful going forward.

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## Board of Directors

The members of the Board who served during the year are shown on pages 15 to 17.

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## Principal risks and uncertainties

The Group has an established risk management framework covering all material activities, this culminates in the ORSA which is reviewed by the Board on a regular basis. The following are considered to be the principal risks affecting the business and how management mitigates any adverse impact.

### Insurance risk

Medical insurance is short-tail business and thus the ultimate claims outcome of each year can be predicted with reasonable accuracy at the end of each accounting period. Adverse claims frequency or severity could result in short-term claims costs exceeding premium levels. Management regularly review underwriting ratios and take action as necessary to ensure that results within a financial year are aligned to the medium-term strategy of break-even across the insurance portfolio. The rebates issued in April and June 2020 are examples of this being actively managed. Low claims in 2020, as a result of the pandemic, gives rise to greater claims frequency risk in 2021 as customers seek delayed elective treatment. Policies' terms and premium rates are reviewed at least annually or more frequently where performance deviates from expectations. Contracts with major hospital networks are negotiated annually and when our customers require complex medical treatment we work with the healthcare providers to ensure that our policyholders obtain value for money. The financial strength of the business does not necessitate an extensive reinsurance arrangement. The reinsurance coverage during the year was limited to two facultative policies, which have been reclassified in these financial statements as non-IFRS 4 insurance contracts as a result of the interdependence between the primary and reinsurance contracts.

### Operational risk

The business is exposed to a variety of operational risks in respect of systems, premises and people, including the risk of cyber-attack. To the extent possible the Board has sought independent assurance over the robustness of the operational practices. Such assurances include Cyber Essentials Plus and independent certification by the British Standards Institute (BSI) to the following ISO accreditations: 9001:2015 Quality Management, 27001:2013 Information Security Management, 22301:2012 Business Continuity Management and 14001:2015 Environmental Management.

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## Principal risks and uncertainties continued

The Group administers bank accounts on behalf of our Corporate Deductible and Protocol customers, for the purpose of claims settlement. The customer retains the economic benefit of the balance of the bank accounts, therefore the balances of these bank accounts are not recognised on the Group's financial statements. The Group annually commissions an International Standards for Assurance Engagements Service Auditor Report (ISAE 3402) on the procedures undertaken on behalf of our large corporate customers.

We have well established and regularly tested business continuity plans that ensure we can continue to serve our customers in the face of adverse events. This was successfully implemented in March 2020 at the onset of the pandemic when we transferred all of our people to remote working. In addition the Group has sole occupancy of a dedicated business continuity site which, coupled with a resilient IT platform, ensures continued operation in the event of an incident at the primary site in Taunton.

### Financial risks

**Market risk:** The Group's primary market risk is through its exposure to equity markets. From a solvency perspective the impact of market risk is eliminated through holding low risk investments, typically cash and UK Government stock which meet both solvency and current liabilities' requirements. Equity risk is managed through the Investment Committee's careful selection of funds which have a sound track record or management expertise in the chosen sector or geography. There is regular monitoring of these investments. The equity portfolio is well diversified to protect against adverse market movements in any one segment. The Investment Committee is authorised by the Board to use derivative instruments solely to protect the value of the portfolio.

**Credit risk:** The Group's primary credit risk is through deposit institutions, with investments held in corporate bonds and, to a lesser extent, the holdings in Government stock. Credit risk also prevails through exposure to policyholder debtors, which are subject to robust credit control procedures, further protected by our policy to hold claims payments until any customer arrears are settled. Credit risk is mitigated by limiting the exposure to any individual financial or corporate institution based on their credit rating and by diversifying investments across a number of counterparties.

**Interest rate risk:** The Group's investment policy is to typically hold debt instruments until maturity and thus eliminate volatility from asset valuations. The returns on cash instruments are dependent on interest rates. The Investment Committee seeks to optimise returns based on the counterparty restrictions described above.

**Currency risk:** The Group has exposure to worldwide currencies as a result of collective investment schemes with international holdings. The primary exposure is the impact of the US Dollar exchange rate on global equity holdings and US Dollar cash holdings. The Investment Committee has discretion to use derivative instruments to protect the Sterling value of the portfolio. The running costs of our wholly owned Indian subsidiary – WPA World Class Service (India) Private Ltd – create a secondary exposure to currency.

**Liquidity risk:** The Group monitors its working capital on a daily basis. The cash instruments held within the investment portfolio ensure that there are always sufficient funds available to meet all operational requirements.

# Strategic Report continued

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## Principal risks and uncertainties continued

### Pension risk

The Pension Scheme has a fully implemented Liability Driven Investment strategy. This has eliminated all market risk and immunised the Scheme against future deficits which result from inflation and interest rate movements, as the Gilts held by the Scheme are designed to match the expected outflows of the Scheme. The primary residual risk faced by the Scheme is longevity risk.

### Going concern

The Directors of the Parent Company have evaluated, and concluded, that it is reasonable to expect the Company and its subsidiaries to remain in business for a period of at least twelve months from the date of signing the financial statements.

The evaluation considered the strength of the Group's balance sheet, noting that the Group has demonstrable liquid resources of £153.0m (2019: £149.4m) in excess of liability requirements and that the regulatory solvency coverage stood at 447% (2019: 557%). As a not-for-profit organisation the expectation is to break-even over the medium-term on the insurance business, supported by investment returns.

The general economic rebound, which the UK Government expects from 2H 2021, following the effects of Brexit and Covid-19 are anticipated to provide a positive future outlook for the business.

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## WPA and Section 172 of the Companies Act 2006

Section 172 of the Companies Act imposes upon directors a duty to promote the success of the Company. As a not-for-profit company with a heritage dating back to 1901, decisions taken by the Board have always considered long-term consequences in order to safeguard the Association's future.

In March 2021 the Board adopted a revised Code of Corporate Governance, based on the Financial Reporting Council's 2018 code but adapted to reflect that WPA does not have shareholders. The code adopted identifies the Association's stakeholders and makes clear that they are to be taken into account when making decisions.

### The Board's Approach

In the Schedule of Matters Reserved for the Board, there is a section dedicated to Corporate Governance which makes clear that the Directors should consider the balance of interests between members, employees, customers, the community and any other relevant stakeholder. The Schedule of Matters Reserved for the Board is reviewed annually.

The Chairman is responsible for co-ordinating the activities of the Non-Executive Directors, he does not control or manage them, thereby allowing them to be independent in their decision making. In turn, each Non-Executive Director, annually attests that they are aware of their duties under Section 172 and pay due regard to those duties when making decisions.

### Stakeholders

As a private company, limited by guarantee, WPA does not have shareholders. WPA's main stakeholders are our customers, employees, suppliers and other business relationships, regulators and the wider community including our members.

The Association recognises the importance of all stakeholders in delivering its strategy and long-term business sustainability. The pursuit of quality in all that we do remains our strategy, nevertheless our customers are at the forefront of all that we do and a key factor in any decision taken by the Board.

On a monthly basis, the Board receives an update from the Customer Outcomes Meeting, attended by the Executive Team and Senior Management. The Customer Outcomes Dashboard is an innovative tool which enables drill down to a granular level and contains key performance indicators such as: feedback received from customers by way of service satisfaction scores; compliments and complaints data; along with customer retention figures and departmental service standards. Our employees are trained to treat customers as they would wish to be treated themselves.

Our employees are the voice of WPA and provide our customers with excellent service at what is, very often, a difficult time for the customer. Our employee retention is excellent with average tenure of 10 years. We recognise that the strength of the Company is in the people and by fostering closer teamwork we can continually improve the business. To bolster engagement with our employees, during the final quarter of 2020, a staff survey was undertaken by an external third-party with a presentation back to all staff as to follow up actions. This was the second survey undertaken following on from the Board's commitment to employee engagement. Whilst employee experience is a key consideration for the Board, it is subject to the oversight of the Personnel Committee.

Our supplier and business relationships are forged on fairness and with a view to maintaining long-standing and equal relationships. In line with our customers we treat our suppliers as we would wish to be treated – our analysis shows we pay 86% (2019: 91%) of invoices within 30 days. This reduction can be attributed to the fact that some invoices have continued to be received in the post, causing delay in approval, when the majority of our staff worked remotely throughout 2020. The approval of any material business relationship is a matter reserved for the Board.

#### **Key Decisions**

The key decisions taken and overseen by the Board during 2020 concerned our key stakeholders: customers, employees and suppliers. Once it became clear that the government was to impose restrictions in order to curb the spread of Covid-19 and enter into a contract to effectively requisition private hospitals for use by the NHS, the Board convened an extra-ordinary meeting at short notice.

At that meeting, the landscape before the Company being unclear, the Board decided to communicate to customers that WPA would not profit from the Covid-19 crisis and that it would work honestly and openly in considering any potential return, refund or rebate of customer's premium.

At the same time the Board made the decision to close our offices in both Taunton and Bangalore to protect our people. We successfully transitioned all of our team to working from home and have not sought to furlough any of our staff. Whilst the vast majority are still working remotely we have reopened the offices exclusively for those who are unable to work from home and provided all expected PPE and enabled social distancing.

## Strategic Report continued

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WPA and Section 172 of the  
Companies Act 2006 continued

The Board convened in April and again in June to discuss and agree the rebates to be paid to customers. Other key decisions in the normal course of business surround insurance, operational and financial issues as these are the key risks faced by the Association. In making any such decision, the Board and its Advisory Committees pay due regard to stakeholder interests and promoting the long-term success of the Association.

This report was approved by the Board of Directors and signed on its behalf by:

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**Nicola Royle** *Company Secretary*  
24 March 2021

# Directors' Report

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## Directors' interests

At no time during the year did any of the Directors have a material interest in a significant contract with the Company or any of its subsidiaries. During the year the Company purchased management liability insurance on behalf of the Directors and Officers against any liability or breach of trust in relation to the Company and any of its subsidiaries. Details of related party transactions are shown in note 19.

Director independence is considered as part of the Corporate Governance Framework on page 22.

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## Donations

During 2020 no political donations were made or expenditure incurred. WPA donated the sum of £250,000 (2019: £nil) to The WPA Benevolent Foundation Limited, a company registered in England and Wales with the objective to promote healthy activity amongst the young, encourage the preservation of good health and change children's perceptions as to their potential lifetime opportunities.

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## Employees

The Company is fully committed to developing all employees to achieve its business objectives and is proud of providing a place of opportunity through its training and development programmes.

Employees at all levels are aware of the broad aims and objectives of the organisation and are provided with information on all matters concerning them. This is facilitated by the Employee Voice – this forum reports to the Personnel Committee, the Chairman of which is a Non-Executive Director who provides updates to the Board. The Board also receives the results of the Staff Survey. The Board considers employees as a stakeholder and considers employee interests when making decisions. For example, throughout the pandemic the preservation of employment and wellbeing of staff has been a consideration.

There is full involvement and communication of the Company's performance through company meetings, monthly quality statistics and the partnership-for-excellence reward scheme. With remote working, the Chief Executive ensured that employees were kept abreast of developments through regular Chief Executive Updates which were delivered to all staff. The updates provided employees with information on matters of concern to them and an overview of the financial and economic factors affecting the performance of the business. Additionally, company meetings have taken place remotely and these have been recorded and made available to those staff unable to attend.

The Company is an equal opportunities employer. As part of this policy the Company gives full and fair consideration to applications for employment made by disabled persons. Full regard is given to training, career development and promotion of disabled persons recruited into the Company or becoming disabled during their employment.

The Board is committed to supporting all staff in balancing their personal responsibilities with work commitments; accordingly approximately 34% of the workforce have chosen to utilise part-time working and overall 43% of the workforce have taken advantage of flexible hours arrangements.

## Directors' Report continued

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### Customers and Suppliers

During 2020, customers were at the forefront of the Board's decision making. With the advent of the pandemic, the decision was immediately taken not to profit from the pandemic, this commitment was published on the website and communicated directly to customers. By way of action, a retention product was launched in April 2020 allowing customers to move to a low cost Essentials Cash plan, whilst protecting their underwriting. Other cash plan products were offered in addition to the two customer rebates which were effected.

Similarly, a commitment was made to our main suppliers and subsidiary companies were empowered to follow suit.

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### Energy and Carbon Information

WPA recognises its responsibilities for the protection of the environment and the impact its activities may have on the environment and became carbon neutral in 2020.

WPA is independently certified by the British Standards Institute to ISO14001, the Environmental Management Standard which provides a framework for setting the organisations environmental objectives and commitment to continual improvement. This includes a commitment to the prevention of pollution locally, regionally and globally.

During 2020 WPA has: increased the number of hybrid and electric vehicles in its fleet from 73% to 75%; completed a switch to LED lighting at Rivergate House; planted a wild meadow and put in a walking track for employee use. Additionally, during 2020 WPA became carbon neutral through initiatives to offset all of our carbon emissions.

During 2020, WPA consumed 576,625kWh of electricity (2019: 721,221KWh). This figure includes the regular recharging of the electric and hybrid vehicles which make up 75% of the Association's vehicle fleet. The remaining 25% of the vehicle fleet run on traditional petrol or diesel. The annual quantity of energy consumed for 2020 from stationary or mobile activities for which the business is responsible involving the combustion of gas was: 550,910 kWh (2019: 651,051KWh).

The 2020 annual quantity of emissions in tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) was: 238.8 made up of 101.3 tonnes of CO<sub>2</sub>e for gas and 134.4 tonnes of CO<sub>2</sub>e for electricity. The CO<sub>2</sub>e figure for transport for the first quarter of the year was 3.1 tonnes of CO<sub>2</sub>e but with the government restrictions and the move to remote working a reliable transport figure cannot be calculated for the remainder of 2020.

For its Intensity Ratio, as an insurer, WPA has adopted the tonnes of CO<sub>2</sub>e per £ million of income ratio. For 2020, using the figures available this is: 2.31:£1m.

The carbon conversion methodology adopted, is GHG Reporting Protocol – Corporate Standard and ISO 14064-1:2018. WPA is also audited by Abricon to Energy Savings Opportunity Scheme and was last audited in November 2018. It is pertinent to highlight that the figures for 2020 are lower than that which they may have been as a result of the pandemic and the move to remote working.

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## Statement of disclosure of information to the auditor

The Directors confirm, at the date of this report and so far as each of them is aware, that firstly, there is no information relevant to the audit of the Group's consolidated and Company's financial statements for the year ended 31 December 2020 of which the auditor is unaware; and secondly, they have taken all steps that ought to have been undertaken as part of the duties of a director to ensure awareness of any audit information and to establish that the Group's and Company's auditor is aware of that information. This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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## Independent auditor

WPA, in accordance with the Companies Act 2006 (as amended), is required to rotate its audit firm after no more than 20 years, and will look to rotate no later than 2033, subject to a successful tender process being undertaken in 2023. Deloitte LLP is the current auditor and a resolution to reappoint Deloitte LLP as auditor will be proposed at the Annual General Meeting.

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## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- i. properly select and apply accounting policies;
- ii. present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- iii. provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- iv. make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report should be read in conjunction with the Strategic Report as a number of requirements are disclosed therein.

Signed on behalf of the Board.



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**Nathan Irwin** *Chief Executive*  
24 March 2021

## Board of Directors and Principal Officers

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### Non-Executive Chairman



**The Rt Hon The Earl of Cromer**

Aged 74

Lord Cromer was appointed to the Board in 2004 and Chairman in 2009. He has had an extensive career as a businessman, mainly in the Far East, and has served on the boards of a considerable number of financial services companies both in the UK and overseas.

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### Non-Executive Deputy Chairman



**Henry Kenyon FCA**

Aged 70

Henry was appointed to the Board in October 2006 and Deputy Chairman in 2017. He has served on a number of boards including other insurance companies and was previously a partner of PricewaterhouseCoopers LLP (PwC) specialising in risk management, accounting and advisory work mainly within the financial services sector.

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### Independent Non-Executive



**John Pugh FCA** *Senior Non-Executive*

Aged 70

John was appointed to the Board as a Non-Executive Director in 2015, having previously been employed as Finance Director from 2004 until his retirement in 2013. Prior to 2004, he had spent the previous nineteen years as a finance director in a range of industries, including seven in investment management.



**John Chester MS FRCS FRCP**

Aged 65

John was appointed to the Board in 2010. He stepped down from the position of WPA's Chief Medical Officer in March 2020 but remains on the Board as the Non-Executive Director with responsibility for oversight of medical governance. John has been a Consultant General and Vascular Surgeon to the Taunton and Somerset NHS Trust for 28 years, and during that time has served as Clinical Director of Surgery, Somerset Academy Medical Dean and Chairman of the Court of Examiners of the Royal College of Surgeons of England.



**Jasper Gill FRCS MBA** *Chief Medical Officer*

Aged 47

Jasper was appointed to the Board in February 2019 as a Non-Executive Director, becoming WPA's Chief Medical Officer in March 2020. He is a Consultant Surgeon who has held a number of senior medical management posts in the NHS, latterly as Associate Medical Director for Surgery, Anaesthesia, Theatres and Critical Care.



**Rosalind Johnson MA**

Aged 70

Rosalind was appointed to the Board in 2020 as a Non-Executive Director having previously been employed as WPA's Legal Director and Company Secretary from 1990 until her retirement in 2014. A qualified solicitor and mediator, Rosalind has over 30 years of legal experience.

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## Independent Non-Executive continued



**Robert Lee** *MA FIA*

Aged 63

Rob was appointed to the Board in 2009 and Chairman of the Risk Committee in 2014. He was previously a director at AXA Life and currently serves on Actuarial Committees both in the UK and overseas.



**Anne Obey** *OBE FCA*

Aged 58

Anne was appointed to the Board in October 2020. Anne is Director of Financial Reporting at the Nationwide Building Society, and is a qualified chartered accountant with extensive experience in governance, risk management and control as well as internal and external reporting. In 2019, Anne received an OBE for her services to financial reporting and sustainable energy. Anne chairs the Board of Trustees for the Centre for Sustainable Energy and is a Governor of Coventry University.

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## Chief Executive



**Nathan Irwin** *FCA*

Aged 41

Nathan was appointed as Chief Executive in August 2019, having previously served as the Association's Chief Financial Officer for six years. Nathan was previously a director at PwC, specialising in financial services.

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## Executive Directors



**Rod Bramston** *BSc (Hons) MBA Retail and Commercial*

Aged 58

With 20 years' experience at WPA, Rod leads the retail and commercial SME sectors. Previously, Rod was a marketing director at GE Capital, having earlier gained extensive international marketing experience with Procter & Gamble's Pharmaceutical Division in Australia, USA, Benelux and the UK.



**Andrew Haworth** *LLB (Hons) Group Counsel and Director of Legal Affairs*

Aged 51

Andrew joined WPA in June in 2014 and was appointed to the Board in October 2014, having previously been an external legal advisor to the Association for more than 10 years as a partner in a firm of solicitors.



**Brian Goodman** *BSc (Hons) Corporate*

Aged 58

Brian has over 30 years of experience across a range of functions within WPA and is also Chief Executive of the Group's specialist healthcare administrator WPA Protocol Plc. Brian was a quantity surveyor in the construction industry prior to joining WPA.

## Board of Directors and Principal Officers continued

### Executive Directors continued



**Mark Southern** *Sales and Marketing Director*

Aged 43

Mark joined WPA in 2008 and has held a number of roles across the business. He is currently the Sales and Marketing Director with responsibility for Distribution across WPA. He is also the Chief Executive of the Group's health insurance intermediary, WPA Healthcare Practice Plc. Prior to joining WPA, Mark was a Royal Marines Commando Officer.

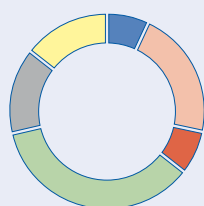


**Peter Venables FCA** *Chief Risk Officer*

Aged 38

Pete joined the Board as Chief Risk Officer in March 2020. Prior to joining WPA, Pete was a director at PwC, where he spent 14 years specialising in Financial Services within the UK and in Hong Kong. During this time, he gained extensive experience across insurance, banking and asset management.

### Board Skills



- Actuarial
- Insurance
- Investment
- Financial Risk and Accountancy
- Legal
- Medical

### Board Position Changes

On 19 March 2020, following a structured handover period, Jasper Gill succeeded John Chester as WPA's Chief Medical Officer. John remains on the Board as the Non-Executive Director with oversight for Medical Governance.

### Board Changes: Outgoing

#### Martin Kramer

On 3 December 2020, in accordance with the succession plan, Martin Kramer stepped down as a Non-Executive Director. Upon stepping down from the Board, Mr Kramer confirmed that he had no concerns about the operation of the Board or the management of the Company.

### Incoming

#### Brian Goodman

Brian's appointment was approved at the January 2020 Board Meeting and he was appointed with effect from 25 March 2020, regulatory approval being granted thereafter.

#### Mark Southern

Mark's appointment was approved with effect from 25 March 2020, regulatory approval being granted thereafter.

#### Peter Venables

Peter's appointment was approved with effect from 25 March 2020, regulatory approval being granted thereafter.

#### Rosalind Johnson

Rosalind was appointed to the Board on 18 June 2020 and is an independent Non-Executive Director and sits on the Risk Committee.

#### Anne Obey

Anne was appointed to the Board on 14 October 2020 as an independent Non-Executive Director.

Anne is a member of the Risk and Audit Committees and provides recent and relevant financial experience.

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## Executive Officers



**Donna Eavis *FCMA*** *Chief Actuary and Chief Finance Officer*

Aged 51

Donna has been with WPA for 20 years, firstly as the Finance Manager, then Head of Finance and more recently Chief Finance Officer. Prior to WPA, Donna worked in a number of finance roles around the UK including Debenhams, the University of Surrey and the Robert Gordon University.



**James Searle** *Chief Operating Officer*

Aged 44

Jim has been at WPA for four years, first as Chief Information Officer and then, for the last two years, as Chief Operating Officer. Previously, Jim was a partner at the consultancy company Control Risks and, before that, an Officer in the Army.

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## Company Secretary



**Nicola Royle *LLB (Hons)***

Aged 33

Nicola joined WPA in 2015 and has been the Association's Company Secretary since July 2016. Nicola qualified as a solicitor in 2013, specialising in commercial litigation and commercial law.

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## Directors and Officers of subsidiaries not listed above

**Kimberley Bell *LLB (Hons)***  
**Neville Kavarana *MBA***  
**Russell Moore**  
**Lisa O'Brien**  
**Denize Spierenburg *Cert CII***  
**Ellis Turley *Cert CII***  
**Jenna Bishop *Cert CII***  
**Katy Trowell *Cert CII***

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## Chief Actuary

**Donna Eavis *FCMA***

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## Statutory Auditor

**Deloitte LLP**

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## Bankers

**National Westminster Bank Plc**

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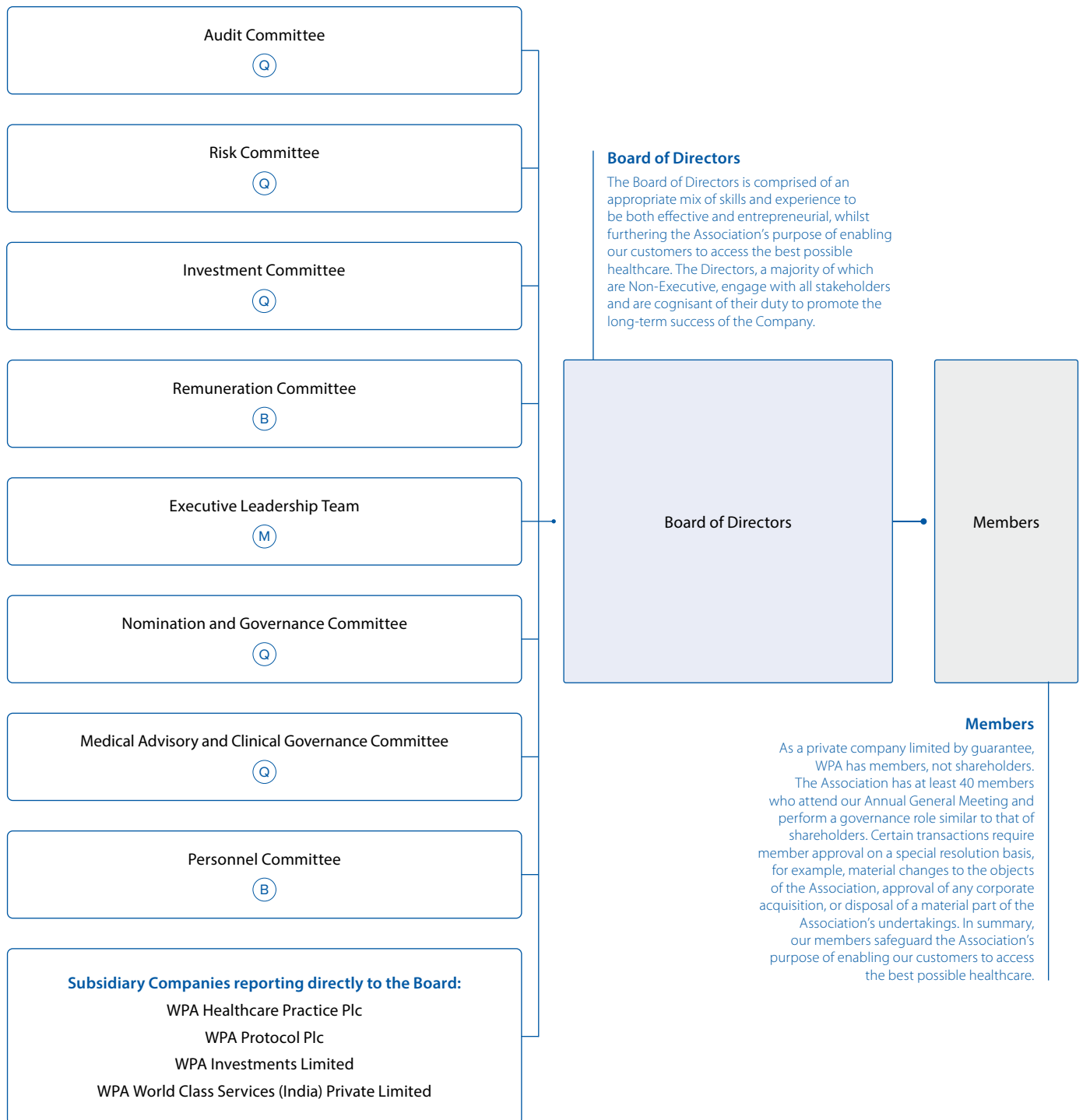
## Committee Members

For Committee composition, please see the relevant Committee within the Corporate Governance section from page 22 onwards.

## Board of Directors Attendance Register 2020

	Board excluding AGM	Audit	Risk	Remuneration	Nomination and Governance
<b>Executive</b>					
Nathan Irwin	7 of 7	–	–	2 of 2	2 of 2
Rod Bramston	7 of 7	–	–	–	–
Brian Goodman	6 of 6	–	–	–	–
Andrew Haworth	7 of 7	–	–	2 of 2	–
Mark Southern	5 of 5	–	–	–	–
Peter Venables	4 of 5	–	–	–	–
<b>Non-Executive</b>					
Lord Cromer	7 of 7	–	–	2 of 2	2 of 2
John Pugh	7 of 7	4 of 4	4 of 4	2 of 2	2 of 2
John Chester	7 of 7	–	–	–	–
Jasper Gill	7 of 7	–	–	1 of 1	1 of 1
Rosalind Johnson	3 of 3	–	1 of 1	–	–
Martin Kramer	7 of 7	–	–	–	–
Henry Kenyon	7 of 7	4 of 4	4 of 4	2 of 2	2 of 2
Rob Lee	7 of 7	4 of 4	4 of 4	–	–
Anne Obey	1 of 1	1 of 1	1 of 1	–	–

# System of Governance



## Board of Directors

The Board of Directors is comprised of an appropriate mix of skills and experience to be both effective and entrepreneurial, whilst furthering the Association's purpose of enabling our customers to access the best possible healthcare. The Directors, a majority of which are Non-Executive, engage with all stakeholders and are cognisant of their duty to promote the long-term success of the Company.

## Members

As a private company limited by guarantee, WPA has members, not shareholders. The Association has at least 40 members who attend our Annual General Meeting and perform a governance role similar to that of shareholders. Certain transactions require member approval on a special resolution basis, for example, material changes to the objects of the Association, approval of any corporate acquisition, or disposal of a material part of the Association's undertakings. In summary, our members safeguard the Association's purpose of enabling our customers to access the best possible healthcare.

- (A) = Annual meetings
- (M) = Monthly meetings
- (Q) = Quarterly meetings
- (B) = Biannual meetings

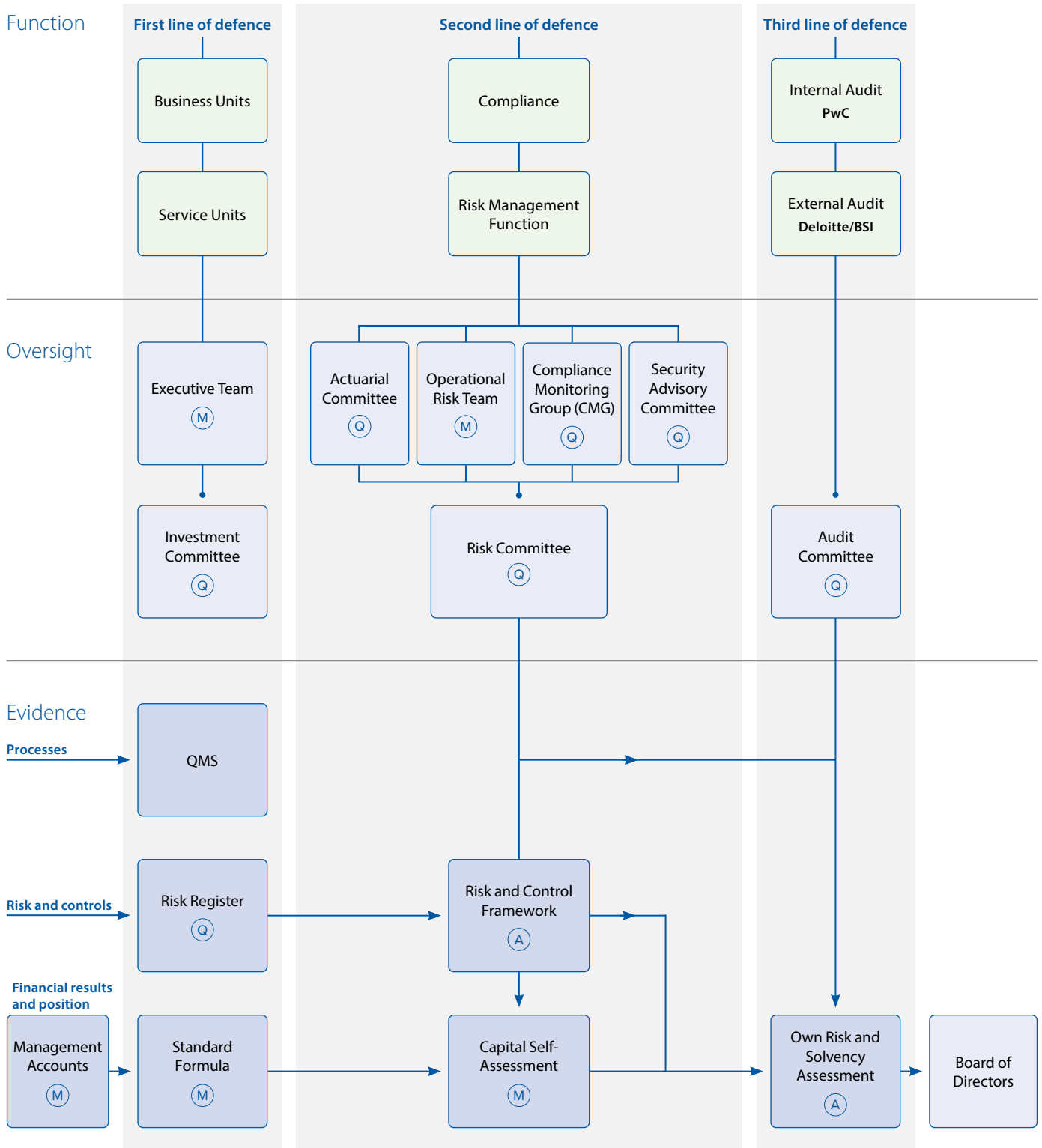
## Whistleblowing

During 2020, the Whistleblowing Policy and Procedure was reviewed in line with the latest guidance from the Whistleblowing Charity, Protect.

The Whistleblowing Policy and Procedure, along with the Anti-Corruption and Bribery Policy are matters formally reserved for the Board and are reviewed annually. Thereafter, the policies are circulated to all staff with a reminder about how to raise concerns.

There were no instances of anyone blowing the whistle during 2020.

The system of governance is designed to enable the Board to lead with three lines of defence, evidence and oversight of functions.



□ = Function | □ = Committee | □ = Documents

# Corporate Governance

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The Board, comprising Executive and Non-Executive Directors, has responsibility for the overall leadership and direction of WPA including determining the strategic direction of the Group to include values and culture. Collectively, the Board is responsible for the Group's system of corporate governance. The Association recognises that good and effective corporate governance is key to the long-term success of the Association. We consider the FRC's UK Corporate Governance Code 2018 as a good starting point. However, as a private company limited by guarantee, without shareholders, not all of the provisions and principles apply. Accordingly, the Association adopts and complies with its adapted Code of Corporate Governance. We are committed to continually improving our governance and, as recognised during the externally facilitated Board Effectiveness Review, the Board has committed to improving upon the already well-established governance arrangements of the Association. During 2020, the Board reviewed and adopted a revised Schedule of Reserved Matters. Thereafter, each Committee adopted a revised Statement of Principles (Terms of Reference) which have been received and approved by the Board. In the first quarter of 2021, the Board updated its own Code of Corporate Governance to mirror the FRC's 2018 Code in so far as it applies.

The Independent Non-Executive Directors are greater in number to the Executive and, with their particularly wide experience, their role is to bring independent judgement to the Board. Annually, the Nomination and Governance Committee, chaired by the Chairman of the Board, considers independence. Each of the Non-Executive Directors are reviewed against the seven independence criteria at provision 10 of the FRC's Code. The following explanations are provided:

- For Non-Executive Directors that were previously employees of the Association either:
  - the requisite period of time elapsed before their appointment to the Board as a Non-Executive; or
  - the Board considered that given the short-term nature of WPA's insurance contracts sufficient time had elapsed for them to be considered independent.
- For those Non-Executive Directors that are members of the defined benefits pension Scheme, it had been fully funded using a liability driven investment strategy and thus does not present a material conflict of interest between the Scheme and WPA. This potential conflict is acknowledged, and should a Pension Scheme matter arise two Non-Executive Directors will absent themselves from discussions. This is documented each year as part of their signed independence declaration.
- Although tenure is an important independence consideration, the Board considers the preservation of the Association's values and culture along with an individual's personal integrity to be of paramount importance. These attributes, along with continued demonstration of effective challenge both inside and outside of meetings, demonstrate independence.

With the above explanations accepted, the Board considers all of the Non-Executive Directors to be independent.

The structure and composition of the Board is kept under review and the Board, with input from the Nomination and Governance Committee which monitors the Association's succession plan, considers the identification and nomination of new Directors and the continuation of existing Directors in office.

A meeting of the Independent Non-Executives, both with and without the Chairman, is held annually. The Independent Non-Executive Directors have access to any information they require and, as part of their role, regularly spend time engaging with staff in all parts of the business including the observation of the Group's working committees (i.e. those below Board Advisory level).

## Corporate Governance continued

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The Board is aware of its stakeholders and engages with them, taking into consideration (when appropriate) their views, when making decisions. As highlighted, in addition to its Code of Corporate Governance, the Board has a Schedule of Matters specifically reserved to it, which can only be amended by the Board itself and which is reviewed annually. The Statement of Principles (Terms of Reference) for each of the Board's Advisory Committees ensure that reserved matters are correctly referred to the Board for decision.

There is a formal procedure for the Board's Advisory Committees and each Director to obtain independent professional advice at the Company's expense, should this be necessary in the exercise or furtherance of their duties.

The Company is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) as a general insurer. The Board and Senior Management are regularly briefed on existing and proposed regulation. The Company routinely monitors its compliance with regulatory requirements at all levels and reports the findings formally to the Audit and Risk Committees. Both the Audit and Risk Committees each give due consideration to all relevant laws and regulations, along with the provisions of the FCA and PRA and any other applicable rules, as appropriate.

Further, and amongst its other duties, the Risk Committee is responsible for supporting the Board through an oversight role in ensuring that: the WPA Group remains compliant with relevant legislation and regulation; and the insurance activities do not expose the WPA Group to significant adverse financial results. The Audit Committee complements this by holding responsibility for reviewing the systems in place to ensure the Group's compliance with the regulatory reporting requirements of the Financial Conduct Authority and Prudential Regulation Authority. Each of these Committees in turn report to the Board.

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### Governance Framework

The Board reviews the Group's strategic plans and objectives at least annually and approves budgets and plans in light of these. The Board, following interrogation by the Risk Committee, formally approves the risk appetite statements and related policies and the assessment of risk and appropriate controls. There are detailed financial control procedures, applicable across the business; the Board receives regular reports on financial and operational matters. These include monthly ORSA snapshots, Customer Outcomes information and reports on financial performance both against the approved business plan and by comparison with the previous year and reporting on investment performance, liquidity and solvency.

The Board has always received a mixture of written and verbal updates. During 2020, in common with many others, the event of the pandemic affected the business and as the pandemic worsened this in turn changed the expected impact making it imperative that the Board was kept abreast of developments. During 2020:

- The Board switched to virtual video meetings from March, it being noted that the Association's Articles of Association permit virtual meetings and that the Chairman ensured that all Board members could see, hear and actively participate in each meeting.
- Board papers contained more written updates, both from Advisory Committee Chairs and the Executive, to ensure that the Board's time could be effectively used and that the Non-Executive Directors could adequately challenge the Executive remotely.
- Additional Board update meetings were held in March, August and December to enable time to effectively discuss and challenge. In total the Board met on seven occasions during 2020 compared to four (excluding the AGM) in 2019.
- The Chief Executive ensured the Board received regular email business updates on an almost weekly basis between scheduled meetings.

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## Governance Framework continued

The Board Advisory Committees are set out on page 19. They each have a written Statement of Principles (Terms of Reference), which clearly define authorities and responsibilities. All Committees meet regularly and, during 2020, the Risk Committee specifically undertook additional meetings to model risk and discuss scenarios.

The minutes of all the Board Advisory Committees are placed on the Agenda of the Board. Committee remit and membership are kept under review by the Nomination and Governance Committee, at least annually. As appropriate, the Committees comprise members who are not directors, where they bring a particular expertise.

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## Board Effectiveness Review

In the final quarter of 2019, the Nomination and Governance Committee commissioned an external Board Effectiveness Review. The Committee members first refreshed themselves of the PRA's Supervisory Statement on Corporate Governance and Board Reporting and then objectively considered proposals from six professional services firms against this guidance.

BP & E Global Ltd (BP&E) were selected as the preferred provider, their appointment was communicated to the Board. There was no existing connection between BP&E and WPA or any Board Member.

The Review began early in January 2020 and, working with the Company Secretary, the Chair ensured that the external Reviewer had access to all requested documents including previous board packs, minutes and all board governance documents.

Each Board Member engaged with the process and following the completion of evaluation questionnaires, in late January, face to face interviews took place with the external evaluator. The January Board Meeting was observed along with the March Audit and Risk Committees.

The written Report was delivered directly to the Chairman at a private meeting between the Chairman and the external evaluator, before being delivered to the Board at its March meeting. The Report contained constructive and meaningful recommendations, split into the following categories: Board Dynamics; Board Processes; Delegation and Oversight of Management; Culture, Ethics and Clarity of Purpose; Strategic Direction; and Stakeholder Engagement. Each of the actions within the written Report were discussed at Board level and an action plan produced to manage the development of the actions.

In summary, the majority of BP&E's recommendations were of medium or low category and will only ensure that WPA's, already well-run Board, becomes even more effective. In the conclusion of the Report it was stated that "WPA is run well and the recommendations [above] will ensure that the WPA Board becomes even more effective, to the benefit of the business and in line with regulatory expectations".

The Board Effectiveness Review process was closed at the October meeting with the Board being satisfied that each of the actions had been progressed or that sufficient measures were in place to ensure progression.

## Corporate Governance continued

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### Audit Committee

**John Pugh FCA** *Chairman*

**Henry Kenyon FCA**

**Robert Lee MA FIA**

**Anne Obey OBE FCA**

The Committee meets the requirement that at least one member of the Committee has recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Association operates.

The Audit Committee meets at least four times annually and is comprised of Independent Non-Executive Directors. Senior and executive management attend the Audit Committee meetings by invitation. The Chief Executive, Chief Finance Officer, Chief Risk Officer, Head of Internal Audit and a representative of the external auditor normally attend meetings.

The members of the Committee meet regularly with and without senior and executive management and the internal and the external auditors. The Committee members ensure an independent and professional relationship is maintained with the auditors.

The Audit Committee's remit extends across the WPA Group and has oversight of senior and executive management, internal audit and external audit along with any other assurance providers.

#### Work of the Audit Committee

The Audit Committee monitors the integrity of the financial statements and reviews any significant financial reporting judgements contained in them. In accordance with the formal Schedule of Matters reserved for the Board, the Committee provides advice regarding the Annual Report and Accounts and the Solvency and Financial Condition Report (SFCR). The Committee has oversight of the SFCR before it is approved by the Board. The Board has elected to have the SFCR audited externally at least every three years. The 2020 SFCR is subject to external audit by Deloitte LLP and will be published on the WPA website.

The Audit Committee reviews the annual financial statements before submission to the Board to be satisfied that there are no significant unsettled issues between management and the external auditor which would affect the truth and fairness of the statements, focusing particularly on:

- Critical accounting policies and practices, and any changes in them;
- Major judgemental areas;
- Clarity of disclosures;
- Significant adjustments resulting from the audit;
- Going concern assumption; and
- Compliance with accounting standards and other legal requirements.

Two facultative reinsurance contracts and associated primary insurance contracts have been reclassified as a single contract due to their interdependence. As a result, certain comparative figures have been restated. Whilst premium receivable, reinsurance premium payable, claims paid and reinsurer's share of claims paid are restated, there is no impact on net earned premium, net claims, loss or reserves.

The claims reserve is the most significant estimate in the financial statements. It provides for the ultimate cost of settling all claims incurred in the year which are not settled at the balance sheet date. The significance of the estimate means that it comes under close scrutiny by the Audit Committee at the time of reviewing the accounts, with the retrospective accuracy of the reserve subsequently discussed at points throughout the year.

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## Audit Committee continued

For 2020, revenue recognition, that is the value of premium income for policies inceptioned in the year which should be carried into 2021, is calculated on a basis which matches premium to its claims risk profile. In previous years this income has been spread across the policy duration on a straight-line basis, but the global pandemic has resulted in a reduction in healthcare capacity during parts of the year and consequently created an uneven ability to claim. This methodology is explained in the Estimates section of the Accounting Policies.

During 2020, in addition to the work outlined above the Audit Committee reviewed and considered the valuation of illiquid investments held by the Association. The Committee are satisfied that the valuation method adopted by management is appropriate.

### Internal Audit

The Audit Committee monitors and reviews the internal audit function for the WPA Group. The internal audit function is outsourced to PwC.

Internal audit makes up part of the internal controls of the Association. The Committee reviews and approves the internal audit programme and subsequent reports to ensure that the function is independent, adequately resourced and has appropriate standing within the WPA Group.

For 2020, internal audits included a review of the methodology adopted for the two customer rebates. There were no pervasive issues identified in any of the reports.

The Committee is satisfied that the internal audit work undertaken by PwC makes a positive contribution towards ensuring that the WPA Group has appropriate controls, governance and risk management processes in place. The objective findings and recommendations help to maintain the high business practice standards of the WPA Group.

### External Audit

The Committee assists the Board in ensuring that the external audit is conducted in a thorough, objective and cost-effective manner. The Committee annually assesses the effectiveness of the audit process and the external auditor's independence and objectivity taking into account relevant law, regulation, the ethical standard and any other professional requirements. The nature and extent of any proposed non-audit work to be carried out by the external auditors requires the Committee's approval. Should the Committee authorise any non-audit services it would first have to satisfy itself that the proposed services do not impair the external auditor's objectivity or independence.

During 2020, the only non-audit service undertaken by the external auditors was the assurance obtained on the Group's International Standards for Assurance Engagements report.

In accordance with European and the Financial Reporting Council requirements for audit rotation at the end of 2019, the external audit partner, Simon Cleveland 'rotated' after five years. Andrew Holland was appointed as the Association's external audit partner; however, he was subsequently appointed as the lead audit partner for another health insurer, which the committee considered presented a potential conflict of interest. Deloitte put forward Tom Noble as an alternative partner, after having met the Committee, Tom was subsequently appointed.

## Corporate Governance continued

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### Audit Committee continued

WPA intends to tender the appointment of the external auditor at least every 10 years and the Audit Committee, on behalf of the Board, will take charge of this tender process in due course. As reported for 2019, following the commencement of the external audit, Deloitte LLP sought to increase their audit fees by around 50%. Accordingly, during 2020, the Committee reviewed the appointment of the external auditor and established that they do still continue to represent value for money. In conducting this review, audit quality was the Committee's primary concern and we do not have any concerns with the quality of the audit performed by Deloitte LLP. The Committee has recommended to the Board that a resolution be put before the members of the Association in a General Meeting to consider the re-appointment of Deloitte LLP as statutory auditors.

The Committee holds a formal private meeting at least once a year with the internal and external auditors.

The Committee was considered as part of the externally facilitated independent Board Effectiveness Review. All Committee minutes and packs were made available to the external reviewer and the March Committee meeting was observed. It was noted as part of the Board Effectiveness Review Report that there are very robust processes in place and the integrity of the financial statements are subject to appropriate scrutiny.

In summary, for 2020 the Committee recommended and the Board was satisfied that both the internal and external auditors were effective.

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### Risk Committee

**Robert Lee MA FIA** *Chairman*

**Henry Kenyon FCA**

**John Pugh FCA**

**Anne Obey OBE FCA**

**Rosalind Johnson MA**

The Risk Committee meets at least four times annually and is comprised of Independent Non-Executive Directors. Senior and executive management attend Committee meetings by invitation. The Risk Committee is to meet at least annually with the Chief Risk Officer, and separately with the Actuarial Function Holder and Head of Compliance.

The Risk Committee acts as a steward of the Risk Management Framework for the WPA Group and provides objective oversight of the risk management process with regard to risk identification, assessment, appetite, strategy and management. The Risk Committee has oversight of senior and executive management and receives reports from the Compliance Monitoring Group, the Distribution Monitoring Group, the Operational Risk Team, the Security Advisory Committee and the Actuarial Committee.

The Risk Committee supports the Board in ensuring WPA remains compliant with relevant legislation, advises the Board on the appropriateness of the Own Risk Solvency Assessment (ORSA), the Risk Appetite Statements and the Regular Supervisory Report and promotes a risk awareness culture throughout the WPA Group. The Committee receives assurance from a variety of sources provided by both dedicated WPA staff and professional third party organisations. The Board retains overall responsibility for internal control and the identification and management of business risk.

#### **Work of the Risk Committee**

The Risk Committee is appraised of, and considers, strategic and emerging risks, for example the impact of any government or regulatory changes and has processes in place to assess and adapt to any such change. Where appropriate, the Committee will also hold specific workshop sessions to allow for further discussion and review of the key risk areas or documentation.

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## Risk Committee continued

Cyber security remains a key risk faced by all businesses and WPA is no exception. The Group has a dedicated Security Advisory Committee, an Executive Committee which reports to the Risk Committee on a quarterly basis. Previously, the Security Advisory Committee operated as a Board Advisory Committee, chaired by an Independent Non-Executive Director and cyber risks fell within the Security Advisory Committee's remit. In 2020, it was agreed that the Security Advisory Committee would operate as an Executive Committee, reporting directly into the Risk Committee. The Security Advisory Committee have retained their external advisors to provide assistance to the Non-Executive Directors and provide independent challenge to the business. The Board is appraised of cyber security risks and continues to monitor and adapt to the threat presented by this ever-changing area.

During 2020, as a result of the event of the pandemic there was a trigger event which led to a mid-year update of the ORSA. This was reported to the Board at its extraordinary meeting on 23 March 2020 and a revised ORSA was produced and reviewed by the Risk Committee in June. Thereafter, and for the remainder of 2020, the Risk Committee monitored the changes to impact the business as a result of Covid-19.

Operational resilience has been another focus area in line with the PRA's aim to ensure that operational resilience is a pillar of prudential supervision of equal importance to financial resilience. The Group's adherence to the ISO Standard on Business Continuity and its accreditation (certified by the British Standards Institute (BSI)) brings an effective discipline for planning for potentially disruptive events.

The Committee was considered as part of the externally facilitated independent Board Effectiveness Review. All Committee minutes and packs were made available to the external reviewer and the March Committee meeting was observed. It was noted as part of the Board Effectiveness Review Report that there are very robust processes in place. Further, it was noted that the Committee has regular scrutiny and oversight of the risk management framework.

For 2020, the Risk Committee reported to the Board that it is has been satisfied that the Risk Management Processes of the WPA Group continue to operate effectively.

### **Risk Management**

The Board and Senior Management are responsible for the identification and evaluation of key risks applicable to the Group, whether from internal or external sources.

The assessment of risk is kept under regular review by the Risk Committee and includes strategic and corporate issues, insurance, operations, financial (including market, climate-related credit and liquidity), pensions, Group and other risks related to the achievement of the Group's business objectives.

The implementation and management of the internal control and risk management programme moving forward has been delegated to the Chief Risk Officer. Control policies and procedures are clearly set out in the Group's Risk Management Framework which captures the risks faced by the business together with the related risk appetite, mitigating controls and the monitoring procedures that provide regular oversight and review. The Risk Management Framework reviews are captured in the ORSA and reported on a regular basis to the Board.

The Board is satisfied that the system of internal control and risk management is appropriate for the Group's needs.

## Corporate Governance continued

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### Investment Committee

**Peter Venables FCA** *Chairman*

**Nathan Irwin FCA**

**The Rt Hon The Earl of Cromer**

**Donna Eavis FCMA**

**Mark Eggar FRM ACMA**

**Henry Kenyon FCA**

The Investment Committee operates under a specific mandate from the Board, which includes clear guidelines based on the objectives of the Group and emphasis is placed on communicating these to all appointed investment managers. The overriding aim of the investment strategy is to comfortably maintain the Group's capital to meet regulatory requirements, and secondarily to preserve the real value of the portfolio.

Materiality for the Group is defined at just over £1 million and the Schedule of Matters reserved for the Board, together with the Committee's Statement of Principles, provide an effective authority and reporting framework for the Committee.

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### Medical Advisory and Clinical Governance Committee

**Jasper Gill FRCS MBA** *Chairman and Chief Medical Officer*

**John Chester FRCP FRCS**

**Keith Bates FRCS**

**Stephen Falk FRCR**

**Martin Grover FRCS**

The Medical Advisory and Clinical Governance Committee provides advice to the Board and to Senior Management on any medical matters related to private medical insurance. It advises on developments in medicine and medical treatments, on appropriate levels of benefit and related professional fees, on specialists' recognition and clinical governance in private practice and on rules applied to medical matters in the Group's insurance and administration contracts.

The Chief Medical Officer as Committee Chairman reports to the Board on a quarterly basis and provides his opinion on whether the business has continued to operate in a fair and ethical manner.

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### Nomination and Governance Committee

**The Rt Hon The Earl of Cromer** *Chairman*

**Henry Kenyon FCA**

**John Pugh FCA**

**Nathan Irwin FCA**

**Jasper Gill FRCS MBA** (appointed 14 October 2020)

#### Responsibility

The Nomination and Governance Committee leads the process for appointments to:

- The Board;
- Board Advisory Committees;
- Senior Management Positions including the Executive Team; and
- Subsidiaries within the WPA Group including:
  - WPA Healthcare Practice Plc; and
  - WPA Protocol Plc.

## Overview of the Committee's Activities during 2020

### Committee Composition

During 2020, the Committee met on three occasions and increased its membership by welcoming Mr Gill as a member of the Committee.

### Members

As WPA has no share capital or shareholders, overarching governance is provided by members, each of whom have an individual liability limited to £100. In accordance with the Articles of Association the appointment of members is a matter for the Board upon the recommendation of the Nomination and Governance Committee and subject to final ratification by the members in General Meeting. The Committee keeps under review member composition and during 2020 adopted a criterion approach to future appointments.

In the first quarter of 2020, two members retired before their scheduled re-appointment for reasons of ill health. At the General Meeting, which was held with members in attendance by way of proxy through the Chairman, eleven members were re-appointed in accordance with the retirement provisions of the Articles of Association, and an additional seven new members were appointed. There is a requirement for a minimum number of 40 members and with the changes in composition through 2020, the current number is 48.

### Board Composition

In addition to appointments, the Committee is responsible for maintaining an orderly succession plan. Succession is kept under review by the Committee and, in accordance with the plan, during 2020 the Board was refreshed with both Executive and Non-Executive appointments. The Committee has an established Board Diversity and Inclusion Policy and takes this into account when considering appointments and dealing with succession. The Board Diversity and Inclusion Policy, reviewed annually, is published on the WPA website. In summary, skills, experience and knowledge are the principal factors taken into consideration to ensure that the purpose of the Company is preserved and furthered.

### Executive Appointments

The first Executive Appointment for 2020, approved by the Board in January, was that of Mr Brian Goodman as Executive Director, Corporate. Mr Goodman has been an employee of WPA for over 30 years and is also the Chief Executive of the Group's specialist healthcare administrator. Mr Goodman brings to the Board a detailed knowledge of the health insurance industry.

The second Executive Appointment for 2020 was that of the Chief Risk Officer. The position was advertised in the national press and during the fourth quarter of 2019 Mr Peter Venables was selected from a pool of 20 candidates. Mr Venables joined WPA as the Chief Risk Officer in February 2020 and the Board approved his appointment at its March Meeting. He brings extensive experience in insurance, banking and asset management from his 14 years working in financial services.

The third and final Executive Appointment for 2020 was Mr Mark Southern again in March 2020. Mr Southern is responsible for all of the distribution activities of the WPA Group, he is also the Chief Executive of the WPA Healthcare Practice Plc, the Group's health insurance intermediary. Mr Southern joined WPA in 2008 and has held a number of roles across the business, his progression to the Board ensures that it is fully apprised of all distribution activities.

# Corporate Governance continued

## Nomination and Governance Committee continued

### Non-Executive Appointments and Retirements

Mrs Johnson was appointed to the Board in June as a Non-Executive Director having previously been employed as WPA's Legal Director and Company Secretary from 1990 until her retirement in 2014. A qualified Solicitor and Mediator, Mrs Johnson brings to the Board over 25 years of legal experience and fulfils the Non-Executive oversight of the legal and compliance function.

Mrs Anne Obey was appointed to the Board in October 2020 as a Non-Executive Director. Mrs Obey is a qualified Chartered Accountant and brings extensive experience in governance, risk management and control as well as internal and external reporting. Mrs Obey is also Director of Financial Reporting at the Nationwide Building Society.

With the appointment of Mrs Johnson in June, in accordance with the Succession Plan, Mr Martin Kramer stepped down from the Board at its December meeting. The Board would like to place on record its thanks to Martin Kramer for his years of dedicated service.

### Board Advisory Committees

It is within the remit of the Committee to make recommendations regarding the composition of the Board's Advisory Committees. It does this with reference to the succession plan to ensure the appropriate skill and experience are present and demonstrated by each Committee. During 2020:

- In addition to joining the Nomination and Governance Committee, on its recommendation [made before his joining], Mr Gill was also appointed to the Remuneration Committee, bringing an objective stance due to his unique position.
- Mrs Johnson, calling upon her 25 years of legal experience within the insurance industry was appointed to the Risk Committee.
- Mrs Obey was appointed to both the Audit Committee and the Risk Committee bringing invaluable and relevant financial experience to the former and a wider perspective to the latter.

Each of these appointments were made in accordance with the succession plan.

### Subsidiary Governance

The Committee has oversight of all subsidiaries within the WPA Group and during 2020 undertook a review of subsidiary composition. A number of recommendations were made which were put to the Board for approval before implementing at subsidiary level. Appointments were made from the Executive Team and, in recognition of the wide pool of talent within the organisation, from the wider staff base.

The predominant rationale behind the review of subsidiary composition was to ensure operational resilience in the face of the pandemic but also to nurture the pipeline of succession within the business.

### Gender Balance

As at 31 December 2020 there were 267 employees: 32% male and 68% female. Of the top decile of the business, comprising Executive Directors, including the Executive Team and Senior Managers, 45% are female and 55% male. A large proportion of direct reports to Senior Management are female and are considered within the Succession Plan to ensure a diverse pipeline. This is evidenced by the appointment of two female Senior Managers to the Leadership Team in the final quarter of 2020. WPA produce and publish on the WPA website a Gender Pay Report annually in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. WPA acknowledge that there is a gender pay gap, the primary reason being the skew effect of the Executive Directors of the Board currently being male.

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## Nomination and Governance Committee continued

WPA supports all individuals equally and is committed to developing a diverse and supportive work environment, where our employees can grow and develop to their full potential.

### Other Governance Matters

As part of its wider commitment to governance, the Board firstly reviewed its formal schedule matters reserved for its approval. A revised schedule was presented to the Board in January 2020 and in conjunction with the Advisory Committee Chairs reviewed in detail to ensure consistency and practicality of reporting and decision making. The formal schedule of matters reserved was approved at the Board's March 2020 Meeting.

In addition to refreshing composition, each of the Board Advisory Committees reviewed and refreshed its Statement of Principles/Terms of Reference. The Statement of Principles have, in so far as is permitted by a company without shareholders, been closely aligned to the FRC's 2018 Code of Corporate Governance. The Board received and approved its Advisory Committees' Statement of Principles at its January 2021 Board Meeting.

Further, the Board reviewed its annual agenda cycle and scheduled another meeting, meaning that it now meets six times a year along with provision for *ad hoc* updates.

### Looking Forward

The Committee is committed to maintaining the overall governance of the Board, its Advisory Committees and subsidiaries and accordingly will be focusing upon its pipelines during 2021 with no major changes to Board composition anticipated.

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## Remuneration Committee

**Henry Kenyon FCA** *Chairman*

**The Rt Hon The Earl of Cromer**

**Jasper Gill FRCS MBA** (appointed 14 October 2020)

**John Pugh FCA**

The Remuneration Committee's primary objective is to support and promote the culture, strategy and long-term success of WPA. The Remuneration Committee has delegated responsibility for determining the Remuneration Policy for:

- The Board – Executive Directors;
- Senior Management Positions including the Executive Team; and
- Subsidiaries within the WPA Group including:
  - WPA Healthcare Practice Plc; and
  - WPA Protocol Plc.

The Committee is comprised of Non-Executive Directors considered to be independent. The Chairman of the Board, who was considered independent upon appointment, is a member but is not Chairman of the Committee. The Committee is Chaired by Mr Henry Kenyon, who served on the Remuneration Committee for more than 12 months before his appointment.

# Corporate Governance continued

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## Remuneration Committee continued

### Overview of the Committee's Activities during 2020

During 2020, the Committee met on two occasions.

The Committee undertook a review of the fees payable to Board Advisory Committee members and noted that the work of the members of the Audit and the Risk Committee members had increased and therefore recommended to the Board that the fees payable to these members be standardised and commensurate with workload.

### Remuneration Policy

The Committee has established a Remuneration Policy and has delegated responsibility for setting the remuneration of Executive Directors and the Chair of the Board. Workforce remuneration is reviewed by the Committee along with the alignment of incentives and rewards with culture.

These factors are taken into consideration when setting the Executive Director Remuneration Policy.

The Committee reviews the Policy for the remuneration of Non-Executive Directors but does not set the remuneration or any element of the remuneration package of Non-Executive Directors. Non-Executive Director remuneration is approved by the Executive Directors, subject to final ratification of the members in General Meeting.

The Committee ensures that no individual is involved in setting their own remuneration.

### Executive Director and Senior Management Remuneration

The remuneration of Executive Directors is comprised of:

- Base salary – the core element of remuneration set to attract, fairly reward and retain Executive Directors and is reflective of their role and contribution.
- Short-term Incentive Plan – a plan designed to reward the successful delivery of the Company's strategy and major projects, based on a number of factors including customer satisfaction, risk management, quality metrics and financial results. Payments are based on performance and are always proportional and aligned to culture.
- Long-term Incentive Plan – a plan making payments of a percentage of salary dependent upon the performance of the business over a four year period to recognise the long-term success of the Company including metrics around culture, ethos, reputation and financial stability.
- Pension contributions are set as a percentage of base salary.

The remuneration of Senior Management mirrors that of Executive Directors. In accordance with WPA's not-for-profit status, culture and ethos, bonus and incentive schemes are proportionate to base salary.

### Recognising Excellence

The Remuneration Committee is committed to ensuring that excellence is recognised and that superior performance is rewarded by appropriate measures to avoid formulaic outcomes. Short-term incentives are reviewed regularly to ensure that the basis, targets and payments are fair, balanced and serve the needs of WPA.

### **Long-term Performance**

The Remuneration Committee acts as the steward of the long-term incentive plan on behalf of the Board, including the making of any notional allocations and authorising the release of any payments at the end of the given allocation period as specified in the plan rules. The plan and its continuation is approved by the Board.

### **Employee Remuneration**

Employees' base salary comprises the same elements as those for Executive Directors, albeit reflective of the role performed. The base salary is reviewed annually and for 2020 an increase reflecting CPI was implemented across the workforce. All employees of WPA can qualify for a Partnership for Excellence Scheme which is a percentage of base salary paid at the end of the year set with regard to the performance of the Company.

### **Non-Executive Director Remuneration**

The remuneration of Non-Executive Directors is set and approved by the Board (Non-Executive Directors abstaining) upon the recommendation of the Committee and is then subject to final ratification by the members of WPA in General Meeting. As WPA is a private company limited by guarantee, the members of WPA are not remunerated but they have a limited nominal liability. Non-Executive Director remuneration reflects the time commitment and responsibilities of the role. No share options in WPA or any other WPA Group company are included as part of the remuneration package. The Non-Executive Directors confirm, as part of their annual independence declaration that they:

- Do not participate in any performance related remuneration scheme;
- Only receive their Non-Executive Director and any associated Committee fee from WPA;
- Are not dependent on their income received from WPA.

### **Benefits**

All staff, after a qualifying period are entitled to enrol themselves and their family members in the health and wellbeing benefits provided by WPA. WPA operates a Corporate Healthcare Trust for staff and their families. All staff are provided with a defined contribution pension provision. Pension contributions are set in relation to basic salary only.

Historically, only Executive Directors and Senior Management qualified for the company car scheme or cash alternative. In 2020, the Committee reviewed the provision of company cars and determined that for Executive Directors and Senior Managers the provision to change vehicle be increased from biennial to triennial. Further, any company car must be electric or hybrid. 75% (2019: 40%) of company vehicles are electric or hybrid. Additionally, during 2020 a salary sacrifice car scheme was opened up to all employees with two or more years' service. The scheme gives colleagues access to fully electric and plug-in vehicles with less than 75 g/km CO<sub>2</sub>.

Control Clawback provisions for Executive Directors and Senior Management were discussed during 2019 and introduced via new service contracts for 2020. The clawback provisions provide for three years of recovery in line with the short tail nature of the insurance business.

## Corporate Governance continued

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### Personnel Committee

**Jasper Gill** *FRCS MBA* *Chairman* (appointed 27 February 2020)

**Tracy Sheen** *MA FCIPD*

**Neil Davidson** *ACMA CMIIA*

**Andrew Haworth** *LLB (Hons)*

**Nathan Irwin** *FCA*

**Martin Kramer** (retired with effect from 3 December 2020)

**Lady Merrison**

**Ellis Turley** *Cert CII*

**John Chester** *FRCP FRCS* (appointed 10 November 2020)

**Sadie Watkins** (appointed 27 February 2020)

The Personnel Committee met twice during 2020 and refreshed its composition with the appointment of Mr Chester (Non-Executive Director and former Chief Medical Officer) and Mrs Watkins (Head of Health and Safety).

The Personnel Committee reviews and monitors the development and maintenance of effective human resource strategies. The Group has rigorous recruitment and selection procedures, coupled with induction, further training and regular assessments of all employees.

The Committee reviews human resource strategies and practices for compliance with current employment legislation, to ensure structured training in both business specific skills and, where appropriate, personal development. The Committee also has oversight of the Gender Pay Report and the Modern Slavery Statement.

During 2020 the Vision and Values committee was enhanced into the Employee Voice. The Employee Voice consists of elected staff members from across the business and service units who meet quarterly. The minutes are circulated to all staff members and received by the Personnel Committee, further a representative of the Employee Voice attends the Personnel Committee.

Building upon 2019, a second, again externally facilitated survey was undertaken in 2020 recognising that employee engagement needs to be ongoing. This second survey included the Association's Indian colleagues, employed by WPA World Class Services (India) Private Limited. The employee Net Promoter Score, being the way of establishing the level of advocacy an employee has with their employing organisation, was particularly high. Employees were asked "how likely are you to recommend this organisation as a good place to work" and the score increased from 19 in 2019 to 51 in 2020. To put the figures into context 20 to 40 is very good/excellent and 40 and above is outstanding. The results were reviewed in detail by the Personnel Committee, the Board and shared with all staff.

Although 2020 has presented challenges, an increase in engagement with staff and a greater focus on training and career progression, championed through the Personnel Committee, has been well received.

# Independent Auditor's Report to the members of Western Provident Association Limited

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## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of Western Provident Association Limited (the 'Parent Company') and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Position;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Company Statements of Cash Flows; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

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#### Key audit matters

The key audit matters that we identified in the current year were:

- Valuation of insurance claims reserves;
- Valuation of investments; and
- Premium recognition.

Within this report, key audit matters are identified as follows:

- ⓘ Newly identified
  - ⬆ Increased level of risk
  - ⬅ Similar level of risk
  - ⬇ Decreased level of risk
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## Independent Auditor's Report continued

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### 3. Summary of our audit approach continued

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<b>Materiality</b>	The materiality that we used for the Group financial statements was £1.17m which was determined on the basis of premium receivable net of rebates.
<b>Scoping</b>	Our Group audit included the audit of trading subsidiaries in the United Kingdom, covering 99% of Group revenue, 96% of Group profit before tax and 99% of Group net assets.
<b>Significant changes in our approach</b>	<p>Western Provident Association Limited (WPA) recognise premiums in accordance with the incidence of risk in the period, which was previously considered to be straight line across the period of cover. In 2020, as a result of the Covid-19 pandemic, there was a significant change in capacity levels of private healthcare providers. The impact of this was a restriction of WPA's policyholders to be able to receive treatment throughout the period, thus restricting the level of insurance risk that WPA are exposed to.</p> <p>As a result management changed their methodology to measure the incidence of risk across the period. We therefore identified a new key audit matter over the methodology used by management to measure the incidence of risk. See section 5.3.</p> <p>In the current year WPA rebated premiums to their policyholders to reflect the significant decrease in claims paid. In the prior year our materiality benchmark was premium receivable whereas in the current year premium receivable net of rebates has been used.</p>

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### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating and challenging management's going concern assessment and evidence including business plans and forecasts to support the key assumptions, such as premium growth and claims experience.
- Assessing the sources of liquidity available to the Group.
- Reviewing the Group's Own Risk and Solvency Assessment ("ORSA") to support our understanding of the key risks faced by the Group, its ability to continue as a going concern and understanding reverse stress tests.
- Evaluating correspondence between the Group and its regulators, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), to identify any items of interest which could potentially indicate either non-compliance with legislation or regulatory action held against the Group.
- Assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1 Valuation of insurance claims reserves

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#### Key audit matter description

As set out in note 1(b) to the financial statements, claims reserves include a claims outstanding amount of £10.6m at the end of 2020 compared to £11.0m at the end of the previous year.

Insurance reserving is a significant area of management judgement within the Group's financial statements. Due to the increased audit effort to audit the methodology, reserving model and the significant estimation uncertainty involved, we have identified this key audit matter as a potential fraud risk.

Our key area of focus was the impact of Covid-19 as it had a significant impact on claims volumes during 2020 with overall significant reduction in claims incurred and more volatile claims run-off patterns. This is resulting from a number of factors including:

- certain private healthcare providers reduced capacity for private treatments (due to capacity being reserved for the NHS at various points in the year);
- reduced capacity once open due to additional social distancing measures being followed; and
- changes in behaviour of policyholders to have elective treatments.

Due to the volatile claims experience, as result of the factors described above, management identified that the reserving model historically used would not have accurately reflected the changes in environment and, therefore, utilised a chain ladder model in projecting the best estimate reserves.

There is a risk as to whether the methodology used by management reflects the new claims environment and whether the model calculates the reserves in accordance with the methodology, and whether this remains in line with IFRS 4 ("Insurance Contracts").

This key audit matter is also considered by the Audit Committee in their report on page 25.

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#### How the scope of our audit responded to the key audit matter

We have obtained an understanding of the relevant controls around the methodology choices and the model utilised, the approach to setting assumptions, and the data used in the model and the results relating to this key audit matter.

We assessed the reserving methodology against the requirements of IFRS 4 ("Insurance Contracts") and practices that we have observed across the industry.

We have analysed changes to the recent claims trends to challenge whether the methodology adopted is reflective of the current environment and have assessed this against other known industry methodologies.

# Independent Auditor's Report continued

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## 5.1 Valuation of insurance claims reserves continued

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### How the scope of our audit responded to the key audit matter continued

To test the model used by management, we independently built our own chain ladder model, and compared outputs, to determine if the model was reflective of management's methodology.

As part of our challenge, we assessed the key assumptions made in estimating the reserves and performed sensitivity analysis thereon.

The underlying data used in the model has been tested for completeness and accuracy including agreeing samples back to source documentation.

### Key observations

Through our procedures described above, we identified that the valuation of the insurance claims reserves remained appropriate.

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## 5.2 Valuation of investments

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### Key audit matter description

As at 31 December 2020 the Group directly held a listed equity investment of £3.95m (2019: £7.65m) which management considered to be in an inactive market. The valuation of this investment is a source of significant estimation uncertainty, given the investment is infrequently traded and is in an inactive market.

Due to the high level of judgement and estimation uncertainty involved as well as the increased level of audit effort we have identified this as a key audit matter. Due to a lack of observable external pricing points, management has changed to a net asset value method of valuing this investment, in line with the relevant accounting standards (IAS 39 ("Financial Instruments: Recognition and Measurement") and IFRS 13 ("Fair Value Measurement")). This was the driver of the reduction in value of the investment and the increase in our assessment of the level of risk.

The key audit matter is referred to by the Board in their Strategic Report, section III of the financial statements on significant judgements and estimates and the financial risk management note 20.1a to the financial statements.

This key audit matter is also considered by the Audit Committee in their report on page 26.

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### How the scope of our audit responded to the key audit matter

We have obtained an understanding of the relevant controls relating to this key audit matter and have inspected management's judgement papers on the proposed valuation approach for this investment.

We have assessed this treatment against the relevant accounting standards: IAS 39 ("Financial Instruments: Recognition and Measurement") and IFRS 13 ("Fair Value Measurement").

We involved our financial instrument specialists to challenge the assessment from management that the investment is listed in an inactive market through evaluating frequency and quantum of recent trades on the exchange.

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## 5.2 Valuation of investments continued

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### How the scope of our audit responded to the key audit matter continued

We involved our valuation specialists to challenge the valuation methodology adopted by management through an assessment of the suitability of the options available in accordance with IFRS 13.

We have searched for and inspected relevant publicly available information, including announcements of business developments and share issuances. We have agreed all relevant information used in management's assessment, both historical and post year-end, to Companies House or market announcements. We have also assessed market data and impairment indicators which may challenge management's estimation of the valuation of the investment.

We have assessed the disclosures made in section III of the financial statements on significant judgements and estimates, and the financial risk management note 20.1a to assess whether the judgements and estimates made by management on this investment are appropriately disclosed.

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### Key observations

Through our procedures described above we identified that the valuation of the investment was appropriate.

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## 5.3 Premium recognition

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### Key audit matter description

The Group's accounting policy is to earn premiums in line with the incidence of risk; this has historically been evenly spread across the policy term, resulting in straight line premium recognition. As shown in the statement of financial position, and note 1(a) to the financial statements, provision for unearned premiums was £51m (2019 restated: £48m).

As discussed in the valuation of insurance claims reserves key audit matter, the impact of Covid-19 has had a significant impact on the incidence of risk during 2020.

As a result of the change in incidence of risk, management have developed a new premium recognition model to earn premiums in line with estimated risk patterns. This change results in an additional £2.5m of unearned premium than if income on these policies had continued to be earned on a straight line basis.

There is a risk as to whether the methodology and assumptions used by management reflect the risk incidence, whether it is in line with IFRS 4 (Insurance Contracts), and whether the model calculates the reserves in accordance with the methodology.

This key audit matter is also considered by the Audit Committee in their report on page 26.

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### How the scope of our audit responded to the key audit matter

We have obtained an understanding of the relevant controls relating to this key audit matter.

We have assessed the methodology and assumptions, used by management in the premium recognition model, through review of management's papers against the requirements of IFRS 4 ("Insurance Contracts") and the Group's accounting policy.

# Independent Auditor's Report continued

## 5.3 Premium recognition continued

### How the scope of our audit responded to the key audit matter continued

To determine the key assumptions we have assessed management's methodology and model and performed sensitivity analyses. To challenge management's assumptions on the incidence of risk, we utilised relevant available data to measure how capacity constraints have changed during the period. We compared the output to known events in the period (for example: publicly available information on NHS reserving capacity from private healthcare).

Based on the methodology produced by management, we independently built a revenue recognition model to compare outputs to management's.

We have tested the underlying data used in the model for completeness and accuracy including agreeing samples back to source documentation.

### Key observations

Based on the procedures described above, we consider the premium recognition to be appropriate and in line with the Group's accounting policy.

## 6. Our application of materiality

### 6.1 Materiality

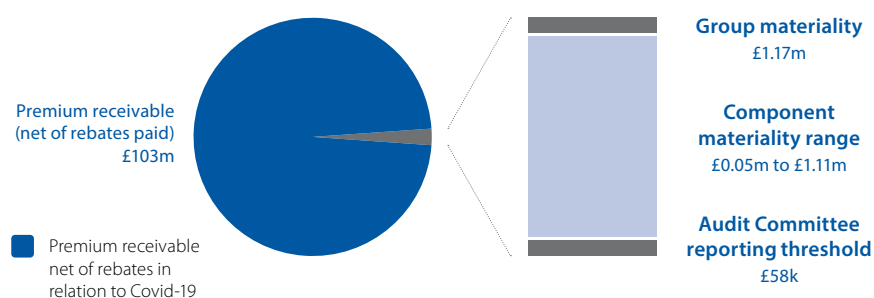
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
<b>Materiality</b>	£1.17m (2019: £1.28m)	£1.11m (2019: £1.22m)
<b>Basis for determining materiality</b>	1% of Premium Receivable net of Rebates (2019: 1% of Premium Receivable)	1.07% of Premium Receivable, net of rebates (2019: 1.05% of Premium Receivable) which is capped at 95% of Group materiality

**Rationale for the benchmark applied** We have used premium receivable, net of rebates declared and paid in the year, as it reflects the fact that the Group's main trading entity, the Parent Company, is limited by guarantee and therefore there are no shareholders monitoring profitability or dividend potential.

In 2020, as a result of the impact of Covid-19 on policyholders' ability to make claims, management paid a rebate of premiums to policyholders. We have therefore included the rebate in our benchmark since it represents a revised premium receivable and best reflects the level of business conducted in the year. In the prior year there was no such material rebate paid.



## 6. Our application of materiality continued

### 6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
<b>Performance materiality</b>	70% (2019: 70%) of Group materiality	70% (2019: 70%) of Parent Company materiality
<b>Basis and rationale for determining performance materiality</b>	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> <li>• Our risk assessment, including our assessment of the Group's control environment, including the impact of Covid-19 on the control environment, and that we consider it appropriate to rely on controls over a significant number of business processes.</li> <li>• Our past experience which has indicated a low number of corrected and uncorrected misstatements in the prior period.</li> </ul>	

### 6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £58k (2019: £64k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

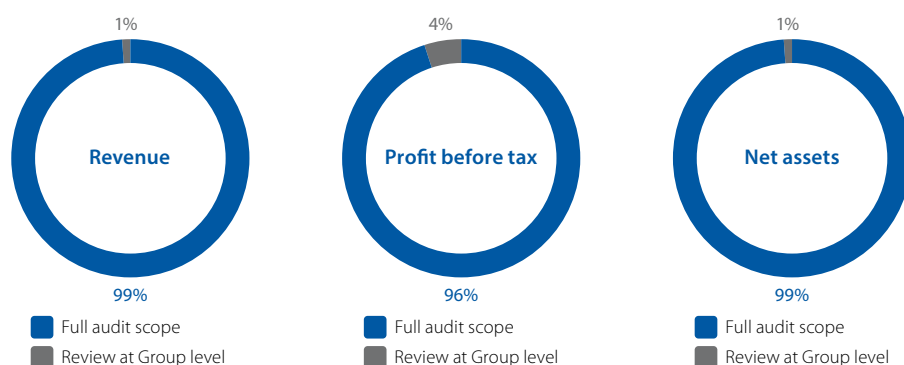
## 7. An overview of the scope of our audit

### 7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risk of material misstatement at the Group level. Audit work to respond to the risks of material misstatement was performed by the Group audit engagement team.

Based on that assessment, we focused our Group audit scope on the United Kingdom trading subsidiaries which are consolidated into the financial statements. These were subject to a full scope audit, executed at levels of materiality applicable to each individual entity in the range £54k to £1,110k (2019: £55k to £1,216k). Our Group audit included the audit of trading subsidiaries in the United Kingdom, covering 99% of Group revenue (2019: 99%), 96% of Group profit before tax (2019: 95%) and 99% of Group net assets (2019: 99%). The Group Engagement Partner is also the Audit Partner for the Group's UK trading subsidiaries.

At the Group level we also tested the consolidation process and carried out analytical procedure to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.



## Independent Auditor's Report continued

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### 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### 9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

#### 11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;

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### 11.1 Identifying and assessing potential risks related to irregularities continued

- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, financial instruments, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

1. Valuation of insurance claims reserves;
2. Valuation of investments; and
3. Premium recognition.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pension's legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's compliance with regulatory and solvency requirements that are fundamental to the Group's ability to continue as a going concern.

### 11.2 Audit response to risks identified

As a result of performing the above, we identified premium recognition, valuation of insurance claims reserves, and valuation of investments as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the PRA and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

# Independent Auditor's Report continued

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## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

### 13. Matters on which we are required to report by exception

#### 13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### 13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

### 14. Other matters which we are required to address

#### 14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 3 July 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years, covering the years ending 31 December 2013 to 31 December 2020.

#### 14.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

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## 15. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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**Tom Noble ACA** *Senior statutory auditor*

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

24 March 2021

# Consolidated Statements

1 Consolidated Income Statement for the year ended 31 December 2020	Note	2020 (£'000)	2019 Restated* (£'000)
<b>Net insurance premium</b>	II(a)		
– Premium receivable	1(a)	110,741	108,952
– Rebates in relation to Covid-19	1(d)	(7,283)	–
– Change in unearned premium provision		<u>(3,234)</u>	<u>(358)</u>
<b>Net insurance premium</b>		100,224	108,594
Administration income	2	2,391	2,344
Administration income rebates	2	<u>(139)</u>	<u>–</u>
<b>Net administration income</b>		2,252	2,344
<b>Net insurance and administration income</b>		102,476	110,938
<b>Investment return</b>	3	858	1,232
<b>Total income</b>		103,334	112,170
<b>Net insurance claims</b>	II(d)		
Claims paid	1(b), 4(a)	(75,081)	(85,731)
Change in the provision for claims	1(b)	422	<u>(1,465)</u>
<b>Net insurance claims</b>		(74,659)	(87,196)
Operating and administrative expenses	4(a)	(25,977)	(27,175)
Items in relation to the pension scheme	17	(310)	–
Investment management expenses		(33)	(7)
Corporate Social Responsibility donations	4(b)	(263)	(7)
<b>Total expenses</b>		(101,242)	(114,385)
<b>Profit/(loss) on ordinary activities before tax</b>	5	2,092	(2,215)
Tax on profit/(loss) on ordinary activities	6	(587)	93
<b>Profit/(loss) for the financial year</b>		1,505	(2,122)

\* See note 21 for details of the restatement.

2 Consolidated Statement of Comprehensive Income for the year ended 31 December 2020	Note	2020 (£'000)	2019 (£'000)
<b>Profit/(loss) for the financial year</b>		1,505	(2,122)
Post employment actuarial loss, net of tax	17	(211)	(75)
Revaluation (deficit)/surplus		(145)	145
Currency translation differences, net of tax		(30)	(36)
<b>Total comprehensive income/(expense) for the year</b>		1,119	(2,088)

3 Consolidated Statement of Financial Position as at 31 December 2020	Note	2020 (£'000)	2019 Restated* (£'000)	As at 1 Jan 2019 Restated* (£'000)
<b>Assets</b>				
Post employment benefits	17	13,211	13,618	13,307
Intangible assets	9	629	365	892
Property, plant and equipment	10	5,784	5,591	4,946
Investment property	11	3,374	3,557	2,712
Deferred acquisition costs	1(c)	4,996	4,421	4,226
Financial assets	12	189,632	185,979	190,510
<b>Loans and other receivables</b>				
– Receivables arising out of direct insurance operations	13	40,899	39,326	39,254
– Corporation tax recoverable		909	1,213	–
– Other receivables		300	738	392
– Prepayments and accrued income		1,633	1,057	1,094
<b>Cash and cash equivalents</b>		<b>7,721</b>	<b>7,532</b>	<b>7,186</b>
<b>Total assets</b>		<b>269,088</b>	<b>263,397</b>	<b>264,519</b>
<b>Liabilities and equity</b>				
<b>Reserves</b>		190,908	189,789	191,877
Post employment benefits	17	763	657	634
<b>Insurance contract liabilities</b>				
– Provision for unearned premiums	1(a)	51,267	48,033	47,675
– Claims outstanding	1(b)	10,585	11,007	9,542
<b>Derivative financial instruments</b>		127	5	–
<b>Deferred tax</b>	7	2,181	2,007	1,473
<b>Trade and other payables</b>				
– Payables arising out of direct insurance operations		5,391	4,837	5,447
– Other payables		7,866	7,062	7,035
– Current tax liabilities		–	–	836
<b>Total equity and liabilities</b>		<b>269,088</b>	<b>263,397</b>	<b>264,519</b>

\* See note 21 for details of the restatement.

## Consolidated Statements continued

4 Consolidated Statement of Changes in Equity for the year ended 31 December 2020	Note	Retained earnings	Currency translation differences	Reserves
		(£'000)	(£'000)	(£'000)
<b>At 1 January 2019</b>		191,926	(49)	191,877
Loss for the year		(2,122)	–	(2,122)
Other comprehensive income				
– Post employment actuarial loss, net of tax	17	(75)	–	(75)
– Revaluation surplus		145	–	145
– Currency translation differences, net of tax		–	(36)	(36)
<b>At 31 December 2019</b>		189,874	(85)	189,789
Profit for the year	11(a)	1,505	–	1,505
Other comprehensive income				
– Post employment actuarial loss, net of tax	17	(211)	–	(211)
– Revaluation deficit		(145)	–	(145)
– Currency translation differences, net of tax		–	(30)	(30)
<b>At 31 December 2020</b>		<b>191,023</b>	<b>(115)</b>	<b>190,908</b>

5 Consolidated Statement of Cash Flows for the year ended 31 December 2020	Note	2020	2019 Restated*
		(£'000)	(£'000)
<b>Cash flows from operating activities</b>			
Cash generated from operations	14	5,993	2,528
Tax paid		(305)	(1,345)
Tax recovered		394	180
Purchases of financial assets		(256,914)	(121,416)
Receipts from financial assets		252,570	123,260
Net payments for investment property		–	(1,677)
Lease incentive		–	(638)
<b>Net cash from operating activities</b>		<b>1,738</b>	<b>892</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		(579)	(200)
Purchases of property, plant and equipment		(826)	(227)
Proceeds from sales of property, plant and equipment		45	43
<b>Net cash used in investing activities</b>		<b>(1,360)</b>	<b>(384)</b>
<b>Cash flows from financing activities</b>			
Payment of lease liabilities		(144)	(106)
Payment of interest on lease liabilities		(15)	(20)
<b>Net cash used in financing activities</b>		<b>(159)</b>	<b>(126)</b>
<b>Net increase in cash and cash equivalents</b>		<b>219</b>	<b>382</b>
Cash and cash equivalents at beginning of year		7,532	7,186
Currency translation differences		(30)	(36)
<b>Cash and cash equivalents at end of year</b>		<b>7,721</b>	<b>7,532</b>

\* The 2019 figures have been restated as the purchases and receipts from financial assets have previously been shown net. These have been restated to show the split between purchases and sales.

# Parent Company Statements

1 Parent Company Statement of Financial Position as at 31 December 2020	Note	2020 (£'000)	2019 Restated* (£'000)	As at 1 Jan 2019 Restated* (£'000)
<b>Assets</b>				
Post employment benefits	17	13,211	13,618	13,307
Investments in Group undertakings	8	934	934	934
Intangible assets	9	629	365	892
Property, plant and equipment	10	5,472	5,346	4,894
Deferred acquisition costs	1(c)	4,996	4,421	4,226
Financial assets	12	189,632	185,979	190,510
Loans and other receivables				
– Receivables arising out of direct insurance operations	13	40,899	39,326	39,254
– Amounts owed by Group undertakings		4,641	5,579	2,965
– Corporation tax recoverable		824	965	–
– Other receivables		158	102	1
– Prepayments and accrued income		1,580	1,000	1,012
Cash and cash equivalents		1,576	1,896	2,449
<b>Total assets</b>		<b>264,552</b>	<b>259,531</b>	<b>260,444</b>
<b>Liabilities</b>				
Reserves		187,630	186,935	188,782
Post employment benefits	17	763	657	634
Insurance contract liabilities				
– Provision for unearned premiums	1(a)	51,267	48,033	47,675
– Claims outstanding	1(b)	10,585	11,007	9,542
Derivative financial instruments		127	5	–
Deferred tax	7	2,181	2,007	1,473
Trade and other payables				
– Payables arising out of direct insurance operations		5,391	4,837	5,447
– Other payables		6,608	6,050	6,117
– Current tax liabilities		–	–	774
<b>Total equity and liabilities</b>		<b>264,552</b>	<b>259,531</b>	<b>260,444</b>

\* See note 21 for details of the restatement.

The Company is domiciled, incorporated and registered in England under number 00475557.

The accounts on pages 47 to 51 were approved by the Board of Directors on 24 March 2021 and were signed on its behalf by:



The Rt Hon The Earl of Cromer *Chairman*



Nathan Irwin *Chief Executive*

Donna Eavis *Chief Finance Officer*

## Parent Company Statements continued

2 Parent Company Statement of Changes in Equity for the year ended 31 December 2020	Note	Retained earnings	Currency translation differences	Reserves
		(£'000)	(£'000)	(£'000)
<b>At 1 January 2019</b>		188,782	–	188,782
Loss for the year		(1,917)	–	(1,917)
Other comprehensive income and expense				
– Pension scheme actuarial loss, net of tax	17	(75)	–	(75)
– Revaluation surplus		145	–	145
<b>At 31 December 2019</b>		186,935	–	186,935
Profit for the year		1,051	–	1,051
Other comprehensive income				
– Pension scheme actuarial loss, net of tax	17	(211)	–	(211)
– Revaluation surplus		(145)	–	(145)
<b>At 31 December 2020</b>		<b>187,630</b>	–	<b>187,630</b>

3 Parent Company Statement of Cash Flows for the year ended 31 December 2020	Note	2020	2019 Restated*
		(£'000)	(£'000)
<b>Cash flows from operating activities</b>			
Cash generated from/(used by) operations	14	4,717	(1,570)
Tax paid		(160)	(1,051)
Tax recovered		226	150
Purchases of financial assets		(256,914)	(121,416)
Receipts from financial assets		252,570	123,260
<b>Net cash from/(used in) operating activities</b>		439	(627)
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		(579)	(200)
Purchases of property, plant and equipment		(800)	(213)
Proceeds from sales of property, plant and equipment		45	43
Dividend received from subsidiaries		620	495
<b>Net cash (used in)/from investing activities</b>		(714)	125
<b>Cash flows from financing activities</b>			
Payment of lease liabilities		(40)	(42)
Payment of interest on lease liabilities		(5)	(9)
<b>Net cash from/(used in) financing activities</b>		(45)	(51)
<b>Net decrease in cash and cash equivalents</b>		(320)	(553)
Cash and cash equivalents at beginning of year		1,896	2,449
<b>Cash and cash equivalents at end of year</b>		<b>1,576</b>	<b>1,896</b>

\* The 2019 figures have been restated as the purchases and receipts from financial assets have previously been shown net. These have been restated to show the split between purchases and sales.

# Accounting Policies

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## I. Basis of presentation

The Group and Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations Committee (IFRS and IFRIC) as adopted by the European Union. As permitted by Section 408 of the Companies Act 2006, no income statement of the Parent Company is presented. The presentation and functional currency of these financial statements is pounds Sterling.

## II. Basis of accounting

These consolidated financial statements are prepared on the going concern basis in accordance with the Companies Act 2006 and IFRS as defined by IAS 1. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets and financial liabilities (including derivative instruments) at fair value through income. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in III Significant estimates and judgements.

The consolidated accounts incorporate the accounts of the Company and its subsidiaries, drawn up to 31 December 2020. Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group. The principal accounting policies are set out below.

### (a) Income

Premiums receivable relate to the premiums on contracts inception during the year, irrespective of whether they relate in part to a later accounting period. Premiums exclude taxes and levies based thereon. All premiums receivable relate to medical insurance and are written in the United Kingdom, Channel Islands or the Isle of Man. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired term of policies in force at the year-end date, calculated on a basis expected to match the expected related claims risk profile. Net insurance premium income represents income earned during the year.

During the year premium rebates were made on an exceptional basis due to the reduction in the availability of private healthcare. As allowed by IAS 1, these have been shown separately in the income statement as they are material and relevant to the users of the financial statements. They were paid to customers during 2020 and therefore they have been recognised in full in the year ended 31 December 2020. The rebates relate to policies that were written in both 2019 and 2020 and remained in force at the time of the rebates..

Premium receivables include premiums relating to policies inception during the year where the premium may be due at the balance sheet date or not due until the following year.

Administration income represents amounts receivable under healthcare administration contracts with corporate clients. The Group applies IFRS 15 'Revenue from contracts with customers', whereby the revenue value is determined by the transaction price within the terms of the contract, with each element of the transaction price allocated to a performance obligation; all of which can be measured through elapsed time.

### (b) Acquisition costs

Acquisition costs, representing direct and indirect expenses, are deferred and amortised over the period in which the related premiums are earned as per note ii (a).

### (c) Unexpired risks

Provision is made for unexpired risks if claims, related expenses and deferred acquisition costs are expected to exceed unearned premium after taking into account future investment income on the unearned premium. No such provision is required at the balance sheet date (2019: £nil).

### (d) Claims

Claims incurred represent the total cost of treatment received by policyholders during the financial year. Claims incurred comprise claims and related expenses in respect of treatment paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Insurance payables include notified payments due to policyholders and medical providers which have not been settled at the year-end.

### (e) Claims outstanding

Provision is made at the year-end for the ultimate cost of settling all claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported. The estimated cost of claims includes direct and indirect expenses to be incurred in settling claims.

The value of claims paid prior to the balance sheet date and the average claims settlement period during the year, by product, is projected to estimate the total costs of outstanding claims, including claims incurred but not reported. Allowance is made for changes or uncertainties, which may create distortions in the underlying statistics, or changes in the business, which may cause the cost of unsettled claims to increase or reduce.

## Accounting Policies continued

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Provision for direct and indirect expenses in settling claims is calculated by applying the proportion of claims outstanding to total claims paid during the year to the total claims handling costs incurred.

A primary aim of the Company is to ensure that the provision for outstanding claims is adequate to meet all such costs. The provision is monitored regularly to ensure that no pattern of adverse run-off deviation emerges. However, given the inherent uncertainty in establishing provision for claims, it is likely that the final outcome will prove to be different from the original liability established.

### **(f) Reinsurance**

Reinsurance premiums payable relate to contracts entered into during the year. Reinsurers' share of unearned premiums relate to the unexpired part of the policy in force at the balance sheet date.

The provision for outstanding claims is calculated gross of any anticipated reinsurance recoveries. Amounts recoverable from reinsurers are recognised on a consistent basis as per the gross underwritten risk. Amounts notified to reinsurers are included within reinsurance receivables. Amounts expected to be recoverable from insurers in respect of claims incurred but not reported are included in reinsurance claims outstanding.

If reinsurance contracts are deemed as a non-IFRS 4 insurance contract as a result of insufficient insurance risk and the interdependence between the primary and reinsurance contracts, the insurance and reinsurance contracts are treated as one contract and the net value is reported under administration income on the income statement.

### **(g) Leases**

The Group applies IFRS 16 which requires operating leases to be treated the same as finance leases with the exception of some short-term leases and leases of low value assets. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. This results in previously recognised operating leases being treated as 'right of use assets' and the corresponding, finance lease liabilities being recorded on the consolidated balance sheet.

Right of use assets show within property, plant and equipment and the corresponding lease liabilities within other payables. Right of use assets are initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The lease liabilities are initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liabilities are adjusted for interest and lease payments.

On the statement of cash flows, lease payments are split into a principal and interest portion and presented as financing and operating cash flows respectively.

### **(h) Financial assets and liabilities**

The Group has chosen to apply the optional temporary exemption from IFRS 9 Financial Instruments, as detailed in notes 22 and 23.

Assets in the investment portfolio whose values are reflected in the financial statements at market value are categorised as 'fair value through profit and loss' (FVTPL), therefore changes in their valuation are taken straight to the Income Statement. Those assets acquired with the intention of being held to maturity are separately categorised as such and carried at amortised cost, less allowances for impairment, using the effective interest rate method. Trade and other payables/receivables are recognised at cost, less allowances for impairment, which are expected to equate to their fair value. Gains or losses on fair value through profit and loss assets held at the balance sheet date are recorded in unrealised investment gains or losses; those disposed of during the year are recorded in realised investment gains or losses.

Fair value through profit and loss assets that are traded in an active market are valued at bid price on the last stock exchange trading day of the year. The fair value of other financial assets for which there is no quoted market price is determined by a variety of methods including net asset values provided by fund administrators. Directly held unlisted equities are valued at cost less impairment in line with the requirements of IAS 39 when there is no reliable indicator for fair value, such as a readily available market price, observable equity transactions, current net asset value, peer companies that could be used as proxies, general market trends of the issuer's industry or other economic information. Directly held listed equities that are not actively traded are held at fair value, based on a range of inputs including the weighted average cost of shares issued, recent market transactions and company specific information. Dividends on equity investments and other investment income are accounted for when receivable.

From time to time the Company holds futures and options derivative instruments and forward currency contracts. These securities are held to hedge exposures in equity markets, assets or transactions denominated in foreign currencies. All derivatives are recognised at fair value through profit and loss.

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**(i) Cash and cash equivalents**

Cash and cash equivalents comprise operational cash held in bank accounts and cash in hand.

**(j) Investments in Group undertakings**

In the Statement of Financial Position for the Parent Company, investments in Group undertakings are stated at cost or at deemed cost, less allowance for impairment, for those held at the date of transition to IFRS. Where a subsidiary undertaking Statement of Financial Position reports a net liability position, provision is made against any inter-company balances due only to the extent that they are deemed irrecoverable.

**(k) Foreign currencies**

The results and financial position of overseas subsidiaries are translated at the average exchange rate throughout the year and at the closing position date respectively. All resulting exchange rate differences are recognised as a separate component of equity.

**(l) Intangible assets**

Intangible assets are capitalised and amortised by equal annual instalments over their estimated useful lives, which for software assets is two years, less allowances for impairment. Internally generated software assets comprise all directly attributable costs necessary to enable the asset to be used within the business.

**(m) Property, plant and equipment**

All properties held at the balance sheet date that are not treated as investment property are occupied by the Company and other Group companies. The properties are held as freehold or with a leasehold interest and are revalued annually. Increases in the carrying amount, greater than the value at the transition date, arising on revaluation of land and buildings are credited to the revaluation surplus in reserves. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other changes in carrying value are charged to the Income Statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the Income Statement and depreciation based on the asset's original cost, net of any related deferred income tax, is transferred from the revaluation surplus to retained earnings. It is the Group's practice to maintain these properties to a high standard with the costs of maintenance charged to the Income Statement.

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives. The periods generally applicable are:

Buildings	= 50 years
Furniture and fittings	= 6 years
Motor vehicles	= 4 years
Computer equipment	= 3 years

**(n) Investment property**

Investment property is valued annually by the Directors and at least triennially by independent specialists. Investment property is held at fair value unless not reliably determinable when under construction, in which case the investment property is measured at cost until the fair value becomes reliably determinable or construction is completed.

**(o) Tax**

Current tax is payable based on taxable profit for the year and tax rates which are enacted as at the balance sheet date.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

**(p) Post employment benefits**

The Group has a defined benefit pension scheme (the 'Scheme'), which closed to future accrual on 31 December 2015, and also makes contributions to Group Personal Pensions. The net pension asset or liability recognised in the Statement of Financial Position is the fair value of the Scheme's assets less the present value of the Scheme's liabilities.

The pension cost for the Scheme is analysed between current service cost, past service cost and net return on pension scheme. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the Income Statement on a straight-line basis over the period in which the increases in benefits vest. The interest charge and interest income are recognised on a net basis and shown within the investment return.

## Accounting Policies continued

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The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the Statement of Comprehensive Income for the period, net of the attributable deferred taxation. Deferred tax arises due to timing differences between accounting treatment and tax treatment. Contributions to Group Personal Pensions are recognised through the Income Statement when due.

Provision is made for the present value of expected costs of providing medical insurance to former employees.

### III. Significant estimates and judgements

#### (a) Key sources of estimation uncertainty

**Claims Reserve.** The provision for claims outstanding requires an estimate of the future payments that will be made in respect of treatments incurred prior to the balance sheet date, together with the estimated cost of claims handling expenses. The primary assumption in developing the estimate relates to the pattern of claims paid which are expected to be consistent with recently observed experience and trends. The process of claims reserving involves selecting a reserving methodology and an appropriate look back period on which to base the best estimate of the future payments for incurred claims.

Prior to the Covid-19 pandemic, the model was based on the claims paid per day and the time taken from treatment to payment, utilising historical averages. This methodology became redundant during the pandemic, as evolving billing and payment patterns meant that it was insufficiently responsive to capture a reasonable estimate of claims incurred. We therefore transitioned to a chain ladder methodology, which was weighted towards more recent development patterns given the significant changes that had been observed in the payment data in recent months. There is significant uncertainty and judgement required, and an overriding assumption that the past provides a reasonable basis for future payment patterns and judgement is required in determining the data and patterns that are appropriate. In order to reduce the risk that the best estimate reserves is insufficient to cover the future claims run-off, a statistically determined risk margin is held which aims to provide confidence that the reserves are sufficient.

The development patterns for health insurance claims are generally very predictable and run-off variations are consequently normally low. This year there is, however, a greater degree of uncertainty, driven by the pandemic and UK wide lockdowns, which we have observed have impacted billing and treatment patterns. This included January and February 2021, with the latest lockdown potentially impacting billing behaviour. We have analysed the post balance sheet development patterns during 2021 and observed that these are lower than we would normally expect. Given the limited two months of historical experience we have to observe this pattern of billing, it has not been factored into our reserving estimate, but we highlight the potential for a material positive run-off deviation.

There are a number of variables within the claims reserve calculation as mentioned in (e) of the accounting policies. The calculation of the best estimate is based on data from the chain ladder report. It is possible to adjust the volume of data, based on timescale, used within the chain ladder report. The shortest-term timescale under consideration was four months and the longest was six years, this produced a range (non linear) of best estimates from £8.6m to £9.6m.

**Revenue recognition.** The accounting policy for unearned premium represents the proportion of premiums written in the year that relate to the unexpired term in force at the year-end date, matched to the related claims risk profile. This results in a provision for unearned premium. The accounting policy remains unchanged, but the methodology has been adjusted to take account of the effect of the global pandemic and consequent change in claims risk profile.

In previous years the premium has been earned on a straight-line basis, over the life of the policy, as the claims risk profile has followed a broadly stable pattern over time. During the year, Covid-19 caused a significant change to the claims risk profile due to the requisitioning of private healthcare facilities, so that they and the NHS could concentrate on Covid-19 and other emergency activities only. As the threat from the global pandemic reduced over the summer months healthcare opened up and returned to near normal levels. For 2020 a new model has been produced which uses incurred claims data as a proxy for the incidence of risk throughout the period. This results in an additional £2.5m of unearned premium as at 31 December 2020, than if these policies had continued to be earned on a straight-line basis. The model relies upon the claims incurred figures for 2020, which are derived from the claims reserving methodology described above, along with a prediction for the expected claims pattern where actual claims are as yet unknown.

The sensitivities of these assumptions can be shown through the range used for the claims pattern in 2021. An expectation that the pattern reverts to previous levels reduces the additional unearned premium by £0.05m; an expectation that there is a 10% claims increase for each month of 2021 increases it by £1.7m. The additional £2.5m in the provision is based upon an expected increase to above normal levels by mid 2021 as the effect of vaccinations and the easing of lockdown take effect, with a return to a more normal claims pattern by early autumn.

**Property valuation.** The valuation of properties is based on a range of assumptions and estimates, with reference to empirical experience of the local property market. Considering the current macroeconomic conditions there is a level of uncertainty that could materially affect the properties' valuations. The properties have been valued by independent valuers as at 31 December 2020. The fair value of the investment properties held by the Group was determined using methodology based on recent market transactions of similar properties which have been adjusted for the specific characteristics of the properties. The valuation techniques include inputs for the investment properties that are unobservable. Sensitivity analysis for the property valuation is shown in note 10.

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**Investment valuation.** When the Group has held collective investment funds containing unlisted equities, or held unlisted equities directly, the valuations are undertaken by management and where appropriate are based on the information provided by the relevant investment managers. Directly held listed equities that are not actively traded are held at fair value, based on a range of estimates and inputs including the weighted average cost of shares issued, recent market transactions and company specific information. Where appropriate, cost less impairment is used as the basis for the fair value. The Group holds a directly listed equity that is not actively traded. If the net assets of the entity were £10m lower at year end, the valuation would have been £0.25m lower.

**Pension valuation.** There are a number of assumptions associated with the valuation of the Pension Scheme, these are detailed in note 17.

**(b) Critical accounting judgements**

The recognition of the Scheme asset under IFRIC 14 requires that the Company has an unconditional right to a refund. In the event that the Scheme is wound up at the point in time when all pensions' payments have reached their natural conclusion the Company would have the right to a refund under the Scheme's Trust deed and rules and thus the Company is mandated to recognise the Scheme asset. The Directors have sought external advice as to whether the trustee approval of the transfer of any surplus to the Company represents a condition that would permit the asset ceiling to be applied, the conclusion reached being that the processes in place do not represent such a condition under IFRIC 14. The Directors have concluded that this judgement is the correct accounting treatment under IFRIC 14.

The reinsurance coverage is limited to two facultative policies, which have been reclassified in these financial statements as a non-IFRS 4 insurance contract as a result of insufficient insurance risk and the interdependence between the primary and reinsurance contracts. The 2019 comparative figures have been restated accordingly.

# Notes to the Accounts

for the year ended 31 December 2020

<b>1 Disclosures for insurance contracts</b>	<b>2020</b>	<b>2019</b>
	(£'000)	Restated* (£'000)
<b>(a) Movement in unearned premiums</b>		
Balance at 1 January	48,033	47,675
Premiums written in the year	110,741	108,952
Premium rebated in the year	(7,283)	–
Premiums earned during the year	(100,224)	(108,594)
<b>Balance at 31 December</b>	<b>51,267</b>	<b>48,033</b>
<b>(b) Movement in claims outstanding</b>		
Balance at 1 January	11,007	9,542
Movement in claims incurred in prior years	(325)	(562)
Claims incurred in the current year	74,984	87,758
Claims paid during the year	(75,081)	(85,731)
<b>Balance at 31 December</b>	<b>10,585</b>	<b>11,007</b>
<b>(c) Movement in deferred acquisition costs</b>		
Balance at 1 January	4,421	4,226
Movement in the year	575	195
<b>Balance at 31 December</b>	<b>4,996</b>	<b>4,421</b>
<b>(d) Premium rebates</b>		
Rebates on policies inceptioned in 2019	(3,997)	–
Rebates on policies inceptioned in 2020	(3,286)	–
<b>Balance at 31 December</b>	<b>(7,283)</b>	<b>–</b>

\* See note 21 for details of the restatement.

The rebates were paid to customers in 2020 in recognition of the reduction in availability of private healthcare due to the global pandemic.

## 2 Administration income

Other income represents non-insurance income for services provided to third parties.

	<b>2020</b>	<b>2019</b>
	(£'000)	Restated* (£'000)
<b>Administration income rebates</b>		
Administration income	2,391	2,344
Rebates on policies inceptioned in 2019	(63)	–
Rebates on policies inceptioned in 2020	(76)	–
<b>Net administration income</b>	<b>2,252</b>	<b>2,344</b>

\* See note 21 for details of the restatement.

The rebates were paid to customers in 2020 in recognition of the reduction in availability of private healthcare due to the global pandemic.

<b>3 Investment return</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Dividend income	387	294
Interest received	376	1,196
Rental income from investment property	213	102
Gains on exchange rate movements	453	1,893
	<b>1,429</b>	<b>3,485</b>
Net (losses)/gains on realisation of investments	(6)	1,510
Unrealised investment losses	(691)	(2,687)
Revaluation of investment property	(140)	(1,449)
	<b>592</b>	<b>859</b>
Net interest on pension scheme	266	373
	<b>858</b>	<b>1,232</b>

<b>4 Net operating expenses</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
<b>(a) Other operating and administrative expenses</b>		
Acquisition costs	11,805	11,570
Change in deferred acquisition costs	(575)	(195)
Administrative expenses	21,095	22,725
FSCS levy	347	(9)
	<b>32,672</b>	<b>34,091</b>
Gross operating expenses	32,672	34,091
Claims handling expenses, shown within Claims paid	(6,695)	(6,916)
<b>Net operating expenses</b>	<b>25,977</b>	<b>27,175</b>
<b>(b) Corporate Social Responsibility donations</b>		
Donations to the WPA Benevolent Foundation Limited	250	–
Donations to other charitable activities	13	7
<b>Total donations to benevolent and charitable activities</b>	<b>263</b>	<b>7</b>

<b>5 Profit/(loss) on ordinary activities before tax</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
<b>Profit/(loss) on ordinary activities before tax is stated after:</b>		
Property revaluation	(224)	199
Amortisation	(315)	(727)
Depreciation on property, plant and equipment	(510)	(427)
Profit/(loss) on disposal of property, plant and equipment	15	13
Auditor remuneration, inclusive of VAT, for:		
– Audit (Company £193,000) (2019: £142,000)	(228)	(195)
Non-audit fees		
– Audit of regulatory return	(48)	–
– Other assurance work	(31)	(28)
Lease interest	(125)	(121)

Non-audit fees represent 24% of total audit fees (2019: 13%).

## Notes to the Accounts continued

### 6 Tax

	2020 (£'000)	2019 (£'000)
<b>(a) Analysis of charge/(credit) in year</b>		
UK corporation tax at 19.00% (2019: 19.00%)	475	(635)
Adjustment for prior periods	(126)	(28)
	349	(663)
Overseas tax	34	25
Total current tax	383	(638)
Deferred tax (note 7)		
– Origination and reversal of timing differences	22	145
– Movement on post employment benefits	(53)	400
– Change in tax rate	235	–
Total deferred tax	204	545
<b>Tax charge/(credit) for the current year</b>	<b>587</b>	<b>(93)</b>

The principal rate of UK corporation tax was 19% for the financial year 2020.

### (b) Factors affecting the tax charge/(credit) for the year

A reconciliation of the tax charge/(credit) for the year to the charge/(credit) that would result from applying the standard UK corporation tax rate to the profit before tax is given below:

	2020 (£'000)	2019 (£'000)
<b>Profit/(loss) before tax</b>	<b>2,092</b>	<b>(2,215)</b>
Notional charge/(credit) at UK corporation tax rate of 19.00% (2019: 19.00%)	399	(417)
Franked investment income not taxable	(73)	(56)
Permanent timing differences	151	314
Items outside the scope of UK tax	(23)	(30)
Tax relating to overseas subsidiaries	34	25
Changes in tax rates	235	(47)
Adjustment to prior periods' tax	(126)	(28)
Deferred tax: prior year	(10)	146
<b>Tax on profit/(loss) on ordinary activities</b>	<b>587</b>	<b>(93)</b>

### (c) Factors that may affect future tax charges

The principal rate of UK corporation tax was 19% for the financial year 2020 (2019: 19%). During the March 2021 Budget the future rate was increased to 25% from 1 April 2023. There are no other factors affecting future charges.

	2020 (£'000)			2019 (£'000)		
	Before tax	Tax credit	After tax	Before tax	Tax charge	After tax
<b>(d) Analysis of tax credit relating to components of other comprehensive income</b>						
Currency translation differences	(30)	–	(30)	(36)	–	(36)
Movement on pension scheme	(236)	25	(211)	(86)	11	(75)
<b>Other comprehensive income</b>	<b>(266)</b>	<b>25</b>	<b>(241)</b>	<b>(122)</b>	<b>11</b>	<b>(111)</b>

All tax credits relate to deferred tax.

## 7 Deferred tax

	Pension scheme	Trading losses	Post employment medical benefits	Other	Total
Group	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
At 1 January 2019	(1,926)	97	107	249	(1,473)
Movement in provision recognised in Income Statement	(400)	(98)	4	(51)	(545)
Movement in provision recognised in other comprehensive income	11	–	–	–	11
At 31 December 2019	(2,315)	(1)	111	198	(2,007)
Movement in provision recognised in Income Statement	(220)	1	35	(15)	(199)
Movement in provision recognised in other comprehensive income	25	–	–	–	25
<b>At 31 December 2020</b>	<b>(2,510)</b>	<b>–</b>	<b>146</b>	<b>183</b>	<b>(2,181)</b>
<b>Company</b>					
At 1 January 2019	(1,926)	97	107	249	(1,473)
Movement in provision recognised in Income Statement	(400)	(98)	4	(51)	(545)
Movement in provision recognised in other comprehensive income	11	–	–	–	11
At 31 December 2019	(2,315)	(1)	111	198	(2,007)
Movement in provision recognised in Income Statement	(220)	1	35	(15)	(199)
Movement in provision recognised in other comprehensive income	25	–	–	–	25
<b>At 31 December 2020</b>	<b>(2,510)</b>	<b>–</b>	<b>146</b>	<b>183</b>	<b>(2,181)</b>

If the freehold property was sold at its current market value there would be a capital loss of £5,187,000 (2019: £4,820,000). There is a deferred tax asset of £985,530 (2019: £820,000) related to this capital loss, which has not been recognised, because there is no intention to sell the asset. Deferred tax on the pension scheme surplus or deficit is provided at the rate it is anticipated that it will reverse.

During the March 2021 budget the future rate of corporation tax was increased to 25%. It does not result in a material difference to our deferred taxation figure.

## Notes to the Accounts continued

### 8 Investment in Group undertakings

	2020 (£'000)	2019 (£'000)
Shares at cost	934	934

The following companies are directly or indirectly wholly owned subsidiaries and are included within the consolidation. Each company is registered in England under the number shown against each one and has capital comprising £1 ordinary shares in issue, except where shown otherwise:

WPA Healthcare Practice Plc	Insurance intermediary company (No. 07320330) (capital comprising £5 ordinary shares in issue)
WPA Investments Limited	Investment company (No. 02591944)
WPA Protocol Plc	Claims and administration services company (No. 02755175)
WPA World Class Service (India) Private Ltd*	Data processing company (No. U72400KA2007PTC041954) (a company registered in India with capital comprising INR10 ordinary shares)
WPA Health Trustee Limited	Trustee company (No. 04562414)
WPA Pension Trustees Limited	Trustee company (No. 04710981)
Delos IT Solutions Limited	Dormant company (No. 10458139)
Self-Pay Limited	Dormant company (No. 04174987)
Stoploss Insurance Services Limited	Dormant company (No. 03831968)
WPA Insurance Services Limited	Dormant company (No. 02593389)
WPA Investments (Development) Limited	Dormant company (No. 02593390)
WPA Property Services Limited (incorporated 13 December 2017)	Dormant company (No. 11110094)
XS Health Limited	Dormant company (No. 03926481)
XS Insurance Services Limited	Dormant company (No. 03783854)

\*31 March accounting year-end in line with fiscal regulations in India.

All subsidiaries held at the IFRS transition date are accounted for in accordance with IFRS 1, using deemed cost. The deemed cost was the value reported in the accounts in accordance with UK GAAP. All other subsidiaries are held at cost. The companies listed as dormant or trustee are exempt from preparing, filing and requiring audited accounts under s.394A, s.448A and s.479A respectively of the Companies Act 2006.

### 9 Intangible assets

Group	Total (£'000)
Cost or valuation	
At 1 January 2019	2,479
Additions	200
At 31 December 2019	2,679
Additions	579
<b>At 31 December 2020</b>	<b>3,258</b>
Amortisation	
At 1 January 2019	1,587
Provided in the year	727
At 31 December 2019	2,314
Provided in the year	315
<b>At 31 December 2020</b>	<b>2,629</b>
Net book value at 31 December 2019	365
<b>Net book value at 31 December 2020</b>	<b>629</b>

<b>Company</b>	<b>Total</b> (£'000)
Cost or valuation	
At 1 January 2019	2,479
Additions	200
At 31 December 2019	2,679
Additions	579
<b>At 31 December 2020</b>	<b>3,258</b>
Amortisation	
At 1 January 2019	1,587
Provided in the year	727
At 31 December 2019	2,314
Provided in the year	315
<b>At 31 December 2020</b>	<b>2,629</b>
Net book value at 31 December 2019	365
<b>Net book value at 31 December 2020</b>	<b>629</b>

<b>10 Property, plant and equipment</b>	<b>Freehold property</b>	<b>Furniture and fittings</b>	<b>Computer equipment</b>	<b>Motor vehicles</b>	<b>Right of use assets</b>	<b>Total</b>
<b>Group</b>	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Cost or valuation						
At 1 January 2019	5,116	2,200	3,022	487	–	10,825
Additions	–	27	98	102	676	903
Disposals	–	(8)	(744)	(189)	–	(941)
Revaluation	199	–	–	–	–	199
At 31 December 2019	5,315	2,219	2,376	400	676	10,986
Additions	–	205	409	212	131	957
Disposals	–	(40)	(330)	(96)	–	(466)
Revaluation	(224)	–	–	–	–	(224)
<b>At 31 December 2020</b>	<b>5,091</b>	<b>2,384</b>	<b>2,455</b>	<b>516</b>	<b>807</b>	<b>11,253</b>
Depreciation						
At 1 January 2019	682	1,941	2,959	297	–	5,879
Provided in the year	118	95	42	77	95	427
Elimination in respect of disposals	–	(8)	(744)	(159)	–	(911)
At 31 December 2019	800	2,028	2,257	215	95	5,395
Provided in the year	76	87	136	87	124	510
Elimination in respect of disposals	–	(36)	(330)	(70)	–	(436)
<b>At 31 December 2020</b>	<b>876</b>	<b>2,079</b>	<b>2,063</b>	<b>232</b>	<b>219</b>	<b>5,469</b>
Net book value at 31 December 2019	4,515	191	119	185	581	5,591
<b>Net book value at 31 December 2020</b>	<b>4,215</b>	<b>305</b>	<b>392</b>	<b>284</b>	<b>588</b>	<b>5,784</b>

## Notes to the Accounts continued

<b>Company</b>	<b>Leasehold property</b>	<b>Furniture and fittings</b>	<b>Computer equipment</b>	<b>Motor vehicles</b>	<b>Right of use assets</b>	<b>Total</b>
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
<b>Cost or valuation</b>						
At 1 January 2019	5,101	2,005	2,882	453	–	10,441
Additions	–	39	79	95	456	669
Disposals	–	(9)	(745)	(189)	–	(943)
Revaluation	199	–	–	–	–	199
<b>At 31 December 2019</b>	<b>5,300</b>	<b>2,035</b>	<b>2,216</b>	<b>359</b>	<b>456</b>	<b>10,366</b>
Additions	–	212	374	214	–	800
Disposals	–	(41)	(331)	(96)	–	(468)
Revaluation	(224)	–	–	–	–	(224)
<b>At 31 December 2020</b>	<b>5,076</b>	<b>2,206</b>	<b>2,259</b>	<b>477</b>	<b>456</b>	<b>10,474</b>
<b>Depreciation</b>						
At 1 January 2019	682	1,755	2,831	279	–	5,547
Provided in the year	118	98	39	91	40	386
Elimination in respect of disposals	–	(9)	(745)	(159)	–	(913)
<b>At 31 December 2019</b>	<b>800</b>	<b>1,844</b>	<b>2,125</b>	<b>211</b>	<b>40</b>	<b>5,020</b>
Provided in the year	76	94	130	83	36	419
Elimination in respect of disposals	–	(36)	(331)	(70)	–	(437)
<b>At 31 December 2020</b>	<b>876</b>	<b>1,902</b>	<b>1,924</b>	<b>224</b>	<b>76</b>	<b>5,002</b>
Net book value at 31 December 2019	4,500	191	91	148	416	5,346
<b>Net book value at 31 December 2020</b>	<b>4,200</b>	<b>304</b>	<b>335</b>	<b>253</b>	<b>380</b>	<b>5,472</b>

Leases are held using the revaluation method under IFRS 16. The Parent Company leases its office premises from WPA Investments Limited on a long leasehold agreement. The rental income is on a fixed payment basis, the remaining lease term runs until 2116. The contractual obligation to keep and maintain the property in a good, tenantable state of decorative repair remains with the Parent Company. The other right of use assets include: the rent of the business continuity property, the remaining lease term runs until 2029; the rental of property for WPA World Class Service (India) Private Ltd on a three year lease, and equipment for WPA Healthcare Practice Plc, also on a three year lease.

The properties were valued on 31 December 2019 and 31 December 2020 at open market value for existing use by independent valuers Hartnell Taylor Cook, Chartered Surveyors and Valuers, in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual. The fair value of the properties was determined using a methodology based on recent market transactions of similar properties, which have been adjusted for the specific characteristics of the properties held by the Group. If the properties had not been revalued they would have been reported at the historical cost of £9,402,000 and cost less depreciation of 4,014,000 (2019: £4,202,000).

The Level 3 fair value measurement used for properties are those derived from a valuation technique that include inputs for the asset that are unobservable. A 5% increase in market value would result in an increase of £211,000; a 5% decrease in market value would have the opposite impact.

Depreciation is included in operating and administrative expenses.

## 11 Investment property

Investment property is measured at fair value, determined using methodology based on recent market transactions of similar properties, which have been adjusted for the specific characteristics of the property held by the Group. The valuation technique includes inputs for the investment properties that are unobservable.

In 2017 WPA Investments Limited purchased a property, located in Taunton. The refurbishment of the property was completed as planned in 2019 and leased to a tenant in July 2019. Rental income of £0.2m (2019: £0.1m) was received in the year, shown in note 3, maintenance costs were £0.1m for the year (2019: £1.7m costs were shown as additions through expenditure). The property has been valued as at 31 December 2020 by an independent valuation specialist, as detailed in note 10. Investment property is categorised as level three within the fair value hierarchy.

<b>Group</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
At 1 January	3,557	2,712
Additions through expenditure	–	1,677
Lease incentive	–	638
Amortisation of lease incentive	(43)	(21)
Change in fair value	(140)	(1,449)
<b>At 31 December</b>	<b>3,374</b>	<b>3,557</b>

## 12 Financial assets

	<b>Carrying value</b>	
<b>Group and Company</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
<b>Fair value through profit and loss</b>		
Equity	3,950	7,650
Collective investment funds – Equities	55,874	29,732
Collective investment funds – Money market funds	36,200	1,572
Forward currency contracts	2,298	1,811
Deposits with credit institutions at floating rates	31,075	33,107
Cash collateral	1,520	1,440
<b>Held to maturity</b>		
Government issued securities	49,901	106,403
Debt and other fixed income securities	8,814	4,264
	<b>189,632</b>	<b>185,979</b>

Forward currency contracts were taken out during the year to hedge against part of the exposure to US Dollars, Japanese Yen and Euros in the investment portfolio. The contracts held at the year end had a maturity date of 31 January 2021. Contracts in a loss position, totalling £127,000 in 2020 (2019: £5,000) are shown separately as a liability. The cash collateral represents the initial margin supporting the forward currency contracts and is settled daily in line with the derivatives.

## Notes to the Accounts continued

### 13 Receivables arising from direct insurance operations

As at 31 December 2020 premium due but not received amounted to £566,000 (2019 Restated: £890,000). A provision for impairment of £32,000 was made as at 31 December 2020 (2019 Restated: £33,000). The premium not yet due relates to policies that are paid by instalments where the relevant due dates are in the future. A provision for lapses of £134,000 (2019 Restated: £181,000) is maintained to recognise that some contracts are cancelled after renewal documentation has been issued. All receivables are due within twelve months. A number of policies are sold via intermediaries but all premiums are payable directly to the Company.

<b>Group and Company</b>	<b>2020</b> (£'000)	<b>2019</b> <b>Restated*</b> (£'000)
Premium due	566	718
Premium not yet due	40,472	38,714
Allowance for bad and doubtful debts	(166)	(214)
Prepayments to corporate client fund accounts	27	108
	<b>40,899</b>	<b>39,326</b>

\* See note 21 for details of the restatement.

Movement in provision for impairment and lapses in the above receivables:

<b>Group and Company</b>	<b>2020</b> (£'000)	<b>2019</b> (£'000)
At 1 January	214	153
– Amounts charged to Income Statement	86	242
– Amounts written off	(134)	(181)
<b>At 31 December</b>	<b>166</b>	<b>214</b>

All provisions relate to the current year. Provisions for bad and doubtful debts are recognised on an incurred loss basis. Specific provision is made for known delinquencies. A collective provision is made for inherent defaults incurred, but not observed, at the balance sheet date on the basis of past experience.

#### 14 Notes to the Statement of Cash Flows

	2020	2019
	(£'000)	Restated* (£'000)
<b>Group</b>		
<b>Profit/(Loss) before tax</b>	<b>2,092</b>	<b>(2,215)</b>
Adjustments for:		
– Amortisation	358	748
– Depreciation	510	427
– Profit on disposal of property, plant and equipment	(15)	(13)
– Leases non-cash items	159	126
– Pension scheme items	310	–
– Pension scheme admin costs	234	–
– Net interest on pension scheme	(266)	(373)
– Decrease/(increase) on revaluation of property, plant and equipment	79	(54)
– Decrease on revaluation of investment property	140	1,449
Increase in deferred acquisition costs	(575)	(195)
Unrealised investment losses	691	2,687
Operational cash flows before movements in working capital	3,717	2,587
Increase in receivables arising out of direct insurance operations	(1,573)	(73)
Decrease/(increase) in other receivables	264	(1,717)
(Increase)/decrease in prepayments and accrued income	(576)	37
Increase in insurance liabilities	2,812	1,824
Increase in derivative financial instruments	122	5
Increase/(decrease) in payables arising out of direct insurance operations	554	(610)
Increase in other payables	673	475
<b>Cash generated from operations</b>	<b>5,993</b>	<b>2,528</b>
	<b>2020</b>	<b>2019</b>
	(£'000)	Restated* (£'000)
<b>Company</b>		
<b>Profit/(Loss) before tax</b>	<b>1,324</b>	<b>(2,035)</b>
Adjustments for:		
– Amortisation	315	727
– Depreciation	419	386
– Profit on disposal of property, plant and equipment	(14)	(13)
– Leases non-cash items	45	51
– Pension scheme items	310	–
– Pension scheme admin costs	234	–
– Net interest on pension scheme	(266)	(373)
– Decrease/(increase) on revaluation of property, plant and equipment	79	(54)
Increase in deferred acquisition costs	(575)	(195)
– Dividend from subsidiaries	(620)	(495)
Unrealised investment losses	691	2,687
Operational cash flows before movements in working capital	1,942	686
Increase in receivables arising out of direct insurance operations	(1,573)	(73)
Decrease/(increase) in amounts owed by Group undertakings	938	(2,614)
Increase in other receivables	(56)	(1,397)
(Increase)/decrease in prepayments and accrued income	(580)	12
Increase in insurance liabilities	2,812	1,824
Increase in derivative financial instruments	122	5
Increase/(decrease) in payables arising out of direct insurance operations	554	(610)
Increase in other payables	558	597
<b>Cash generated from/(used by) operations</b>	<b>4,717</b>	<b>(1,570)</b>

\* See note 21 for details of the restatement.

## Notes to the Accounts continued

### 15 Employee information

	Group		Company	
	2020	2019	2020	2019
Monthly average number of persons (including Executive Directors) employed on permanent contracts	300	288	255	243
Monthly average FTE (including Executive Directors) employed on permanent contracts	274	264	230	221
	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Staff costs: Wages and salaries	12,142	13,471	11,735	13,070
Social security costs	1,266	1,460	1,224	1,437
Other pension costs	867	819	838	789
	<b>14,275</b>	<b>15,750</b>	<b>13,797</b>	<b>15,296</b>

### 16 Directors' emoluments

	2020 (£'000)	2019 (£'000)
– Salary/fees	1,838	1,629
– Pension related benefits	259	217
– Benefits-in-kind	54	184
– Amounts payable under short-term incentive plans	262	164
– Amounts payable under long-term incentive plans	154	118
<b>Aggregate emoluments</b>	<b>2,567</b>	<b>2,312</b>
Highest paid Director		
– Salary	391	369
– Pension related benefits	78	74
– Benefits-in-kind	7	21
– Amounts payable under short-term incentive plans	86	77
– Amounts payable under long-term incentive plans	54	54
<b>Aggregate emoluments for highest paid Director</b>	<b>616</b>	<b>595</b>

There were sixteen Directors in the year (2019: eleven).

### 17 Post employment benefits

The Company has a defined benefit scheme (the "Scheme") in the UK which is funded and the assets of which are held in separate trustee administered funds. The Scheme was closed to new entrants on 1 April 2004 and closed to future accrual on 31 December 2015.

The asset recognised in the consolidated Statement of Financial Position in respect of the Scheme is the fair value of Scheme assets less the present value of the defined benefit obligation at the end of the financial reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate to the terms of the related pension liability. The latest statutory triennial actuarial valuation of the Scheme as at 31 December 2018 demonstrated that the minimum funding requirement was adequately covered at the time. The liabilities reflected in these accounts as at 31 December 2020 reflect the benefits set out in the ongoing formal actuarial valuation.

To develop the expected long-term rate of return on assets assumption, the Company considers the current level of expected return on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return on asset for each asset class is then weighted by the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

In October 2018, the UK High Court ruled that defined benefits schemes should equalise pension benefits for men and women in relation to Guaranteed Minimum Pensions (GMPs). This is relevant to all UK defined benefit schemes with benefits earned between May 1990 and April 1997, including the Company Scheme. The Scheme Actuary has estimated the impact of equalising GMPs for the Scheme to be an increase of 1% of the Scheme liabilities; this increase is reflected in the 2020 numbers below as a past service cost.

<b>The major assumptions used by the actuary were:</b>	<b>2020</b>	<b>2019</b>
Rate of increase of pensions in payment	2.98%	3.03%
Discount rate	1.25%	2.00%
Inflation assumption – RPI	3.05%	3.10%
– CPI	2.55%	2.60%
Members taking maximum lump sum	75%	75%
Proportions married	85%	85%
Expected return on Scheme assets	1.25%	2.0%

The weighted average duration of the defined benefit obligations is 19 years (2019: 20 years).

A 0.25% increase in the assumption made for discount rate would, in isolation, have decreased the valuation of Scheme liabilities by £2,724,000; a 0.25% reduction would have increased Scheme liabilities by a like amount. The assumptions for salary and pension increases are directly linked to inflation. A 0.25% increase in the inflation assumption would, in isolation, have increased Scheme liabilities by £1,645,000; a 0.25% decrease would have decreased the valuation of Scheme liabilities by a like amount. If mortality assumptions were to increase by one year this would increase the Scheme liabilities by £2,220,000. If the proportions married were to increase by 10% this would increase the Scheme liabilities by £429,000, a 10% decrease would decrease the Scheme liabilities by the same amount.

<b>Weighted average life expectancy for mortality tables used to determine benefit obligations at:</b>	<b>2020</b>		<b>2019</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
Member age 60 (current life expectancy)	27.7	30.5	27.6	30.4
Member age 45 (life expectancy at age 60)	30.0	32.8	29.8	32.7

<b>Scheme assets:</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Gilts	60,936	54,913
Other	262	57
Total market value of assets	61,198	54,970
Actuarial value of liabilities	(47,987)	(41,352)
Scheme asset	13,211	13,618
Related deferred tax asset	25	11
<b>Net Scheme asset</b>	<b>13,236</b>	<b>13,629</b>

The gilt assets are considered to be fair value level 1.

<b>Analysis of Scheme costs included within net operating expenses (note 4)</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Past service cost (equalising GMPs)	310	–
<b>Pension scheme past service charges</b>	<b>310</b>	<b>–</b>

## Notes to the Accounts continued

<b>Analysis of net interest cost on the Scheme included within investment return (note 3)</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Expected return on Scheme assets	1,087	1,443
Interest on Scheme liabilities	(821)	(1,070)
<b>Net interest on the Scheme</b>	<b>266</b>	<b>373</b>

<b>Statement of Changes in Equity</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Return on plan assets (excluding interest income)	6,337	3,043
Changes in assumptions	(6,573)	(3,129)
Actuarial loss recognised	(236)	(86)
Related deferred tax credit	25	11
<b>Changes in equity</b>	<b>(211)</b>	<b>(75)</b>

<b>Movement in value of the Scheme during the year</b>		
<b>Change in benefit obligation</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Present value of benefit obligation at beginning of year	41,352	39,226
Past service cost (equalising GMPs)	310	–
Interest cost	821	1,070
Actuarial changes		
– Effect of changes in demographic assumptions	–	(1,179)
– Effect of changes in financial assumptions	6,761	5,162
– Effect of experience adjustments	(295)	(878)
Benefits paid	(962)	(2,049)
<b>Present value of benefit obligations at end of year</b>	<b>47,987</b>	<b>41,352</b>

<b>Change in Scheme assets</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Fair value of Scheme assets at beginning of year	54,970	52,533
Interest income	1,087	1,443
Return on Scheme assets (excluding interest income)	6,337	3,043
Benefits paid and transfers out	(962)	(2,049)
Scheme administration cost	(234)	–
<b>Fair value of Scheme assets at end of year</b>	<b>61,198</b>	<b>54,970</b>

<b>History of assets and liabilities</b>	<b>2020 (£'000)</b>	<b>2019 (£'000)</b>
Total market value of assets	61,198	54,970
Present value of Scheme liabilities	(47,987)	(41,352)
<b>Scheme surplus</b>	<b>13,211</b>	<b>13,618</b>

<b>History of experience gains and losses</b>	<b>2020</b>	<b>2019</b>
Return on Scheme assets	10.4%	5.5%
Experience gains/(losses) on Scheme liabilities	0.0%	0.0%

As the Scheme closed to future accrual on 31 December 2015, the Company made no normal contributions during the year (2019: no normal contributions). During the year the Company made no special contributions to the Scheme (2019: no special contributions to the Scheme).

Since the IFRS transition date the cumulative gain recognised through the Statement of Comprehensive Income is £9,192,000 (2019: cumulative gain of £9,063,000).

For employees meeting the eligibility conditions, the Company operates a Group Personal Pension (GPP). The GPP provides the auto-enrolment solution for the Company and provides improved levels of contribution above the auto-enrolment requirements for staff with greater than five years of service. During the year contributions of £1,249,000 (2019: £1,165,000) were made to defined contribution schemes.

Group and Company	Pension Scheme surplus (£'000)	Post employment medical provision (£'000)
At 1 January 2019	13,307	(634)
Movement in the year	311	(23)
At 31 December 2019	13,618	(657)
Movement in the year	(407)	(106)
<b>At 31 December 2020</b>	<b>13,211</b>	<b>(763)</b>

Free or discounted medical insurance cover has been provided for retired employees. The provision is the estimated future cost of claims in excess of anticipated premiums. The costs of the cover are taken directly to the Income Statement and the provision required is updated annually. Given the inherent uncertainty in establishing the provision for claims, it is likely that the final outcome will prove to be different to the original liability established. The key assumptions underpinning the post employment medical benefit provision are the net increase of future claims in excess of premiums of 1.6% (2019: 1.6%) and the discount rate of 1.25% (2019: 2.0%). Mortality assumptions are taken from the S3PA tables with CMI 2015 projections and 1.5% pa long-term rate (2019: S3PA tables CMI 2015 projections and 1.5% pa long-term rate).

## 18 Commitments and contingent liabilities

	2020 (£'000)		2019 (£'000)	
	Group	Company	Group	Company
The future aggregate minimum lease payments under non-cancellable leases are as follows:				
– Within one year	125	45	121	45
– Between one and five years	211	180	287	180
– After five years	178	206	223	251
	<b>514</b>	<b>431</b>	<b>631</b>	<b>476</b>

The Group has leased a building to provide business continuity capabilities. Lease payments are on a fixed payment basis and no arrangements have been entered into for contingent payments. The remaining lease term runs until December 2029.

The Parent Company has guaranteed the liabilities of its dormant subsidiaries (including trustee companies) listed at Note 8, permitting them to be exempt from preparing and filing their accounts at Companies House. The Parent Company has confirmed that it will meet the current liabilities of WPA Investments Limited, for at least the next eighteen months, in the event that the company is unable to meet them itself.

## Notes to the Accounts continued

### 19 Related parties

#### a) Transactions with subsidiaries

The transactions between the Company and its subsidiaries are presented below. All transactions and balances with Group entities are eliminated on consolidation. All balances with trading subsidiaries are unsecured and there are no terms and conditions relating to them. Debts of dormant subsidiaries are guaranteed by the Parent Company.

Transactions in the year:	2020 (£'000)	2019 (£'000)
Administration charge by WPA Limited	(9,677)	(9,377)
Administration charge to WPA Limited	10,019	9,866
	<b>342</b>	<b>489</b>

#### Balances outstanding:

Gross receivable by WPA Limited	4,922	5,685
Gross payable by WPA Limited	(281)	(106)
	<b>4,641</b>	<b>5,579</b>

#### b) Key management compensation

Key management personnel include all Parent Company Executive and Non-Executive Directors.

	2020 (£'000)	2019 (£'000)
– Salary/fees	1,838	1,629
– Pension related benefits	259	217
– Benefits-in-kind	54	184
– Amounts payable under short-term incentive plans	262	164
– Amounts payable under long-term incentive plans	154	118
<b>Aggregate emoluments</b>	<b>2,567</b>	<b>2,312</b>

Key management personnel purchased WPA insurance policies on an arm's length basis with premium payments of £1,508 in the year (2019: £715).

#### c) Other related parties

During the year a donation of £250,000 was made by the Company to the WPA Benevolent Foundation Limited (the Foundation), a company limited by guarantee and affiliated to the Group (2019: £nil). The objective of the Foundation is the promotion of good health in young people through supporting projects and working with communities and special-interest groups in the South West. The Company leases, on an arm's length basis, a property owned by the Foundation and paid lease costs in the year of £60,000 (2019: £45,000).

Prior to her appointment as a Director on 14 October 2020, Mrs Obey was contracted as a consultant and received £8,864 for her services (2019: £nil).

The Company holds investments with a value of £11,560,000 (2019: £9,811,000) in the Pedder Street Asia Absolute Return Fund, a Hong Kong based Fund of which Lord Cromer is the chairman of the board of directors; the Company holds 10% (2019: 10%) of the fund.

The Company holds investments with a value of £1,543,000 (2019: £1,554,000) in The Far East Value Fund, an Asian collective investment fund of which Lord Cromer is one of the directors. The Company holds 8% (2019: 8%) of the fund.

## 20 Risk management

### 20.1 Financial risk management

The activities of the Group expose it to a variety of financial risks – market risk (including exchange rate, interest rate and price risks), credit risk and liquidity risk. The overall risk management programme of the Group focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the financial performance of the Group.

The Board has a formally approved statement of its Risk Appetite. The Investment Committee monitors the management of investment assets to ensure that they meet the aims and objectives set out in the statement of Risk Appetite; the investment managers report regularly to the Investment Committee to enable it to fulfil this role.

#### a) Market risk

The Group's primary market risk exposure is through the portfolio of collective investment funds whose underlying assets are equities. From a solvency perspective the impact of market risk is eliminated through holding low risk investments, typically UK Government stocks and Treasury Bills, which meet solvency and current liabilities requirements. Equity risk is managed through the Investment Committee's careful selection of investment managers who have a sound track record and expertise in their chosen sector or geography. The portfolio is well diversified to protect against adverse market movements in any one segment.

The geographical equity exposure of the portfolio in collective investment equity funds at 31 December 2020 and 2019 were:

Geographical equity exposure	Number of funds	2020 (£'000)	Number of funds	2019 (£'000)
UK	3	24,520	1	5,088
Europe	1	2,283	–	–
US	4	7,574	2	5,715
Asia	3	15,364	4	15,490
Global	3	6,133	2	3,439
	<b>14</b>	<b>55,874</b>	<b>9</b>	<b>29,732</b>

The principal financial assets held at 31 December 2020 and 2019, analysed by their fair value hierarchy levels were:

		2020 (£'000)	2019 Restated** (£'000)
<b>Level 1</b>	Deposits with credit institutions at floating rates	31,075	33,106
	Collective investment funds – Equities	40,510	12,672
	Collective investment funds – Money market funds	36,200	1,572
	Cash collateral	1,520	1,440
<b>Level 2</b>	Forward currency contracts	2,298	1,811
	Collective investment funds – Equities	15,364	17,061
<b>Level 3</b>	Equity	3,950	7,650
<b>At amortised cost</b>			
<b>Level 1</b>	Government issued securities	49,901	106,403
	Debt and other fixed income securities	8,814	4,264
		<b>189,632</b>	<b>185,979</b>

\*\* The 2019 figures have been restated as the forward contracts, which are over-the-counter derivatives, were incorrectly classified as level 1. These have been reclassified to level 2, reflecting the fact that the valuations are based on observable inputs rather than quoted prices.

## Notes to the Accounts continued

Government issued securities, deposits with credit institutions at fixed rates, debt and other fixed income securities, loans and receivables and trade receivables are recognised on the balance sheet at amortised cost. The fair value of trade receivables and deposits with credit institutions at fixed rates are considered to be equivalent to the amortised cost. Whilst all the investments in the portfolio are susceptible to movements in interest rates, to a greater or lesser extent, the most directly affected are the fixed income and Government issued securities. The Group has 9 (2019: 5) direct corporate bond holdings and holdings in UK Government stocks. These instruments are intended to be held to maturity and thus these are held at amortised cost totalling £58.7m within these financial statements. The estimated fair value of these instruments is £58.7m. The Group does not have any financial assets or liabilities, including the forward currency contracts used for hedging purposes, that are directly linked to any interbank offered rates (IBOR). Consequently, IBOR has had no impact on the Group.

Reconciliation of Level 3 fair value measurements of financial assets:	Available for sale Unquoted equities	
	2020 (£'000)	2019 (£'000)
Balance at 1 January	7,650	13,573
Total losses recognised	(3,700)	(2,015)
Sales	–	(3,908)
<b>Balance at 31 December</b>	<b>3,950</b>	<b>7,650</b>

### Fair value hierarchy

**Level 1:** Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes actively traded listed equity shares, money market funds, exchange-traded derivatives and UK Government stocks.

**Level 2:** Values are provided by the investment manager using techniques based significantly on observed market data, including net asset values. This level also includes Over The Counter derivatives.

**Level 3:** Valued using techniques incorporating information other than observable market data.

The level 3 equity represents a directly held equity that was listed in 2019. The equity is not actively traded on its exchange. The equity is held at fair value, based on a range of estimates and inputs including the weighted average cost of shares issued, recent market transactions and company specific information.

The underlying investments in equities, the majority of which are listed on recognised exchanges, are directly exposed to price risk, although this risk is mitigated to some extent by holding a diversified portfolio of funds.

The investment portfolio has exposure to foreign currencies through collective investment schemes invested in equities not denominated in Sterling and through holding US Dollars. Forward currency contracts were taken out during the year to hedge against the majority of this exposure. For some Asian currencies, US Dollar forward contracts were used as a proxy to hedge the exposure. The Group holds small current account bank balances in Indian Rupees, which are primarily held for working capital purposes. The Group has a regular need to purchase Rupees to meet the operating expenses of WPA World Class Service Limited.

The largest single market to which the Company has exposure is the UK equity market. Using the FTSE 100 as a proxy for the UK equity portfolio, if this index were to fall by 200 points, the impact on asset values would be a reduction of £880,000 (2019: £340,000). If all equity values were to fall by 5% this would reduce asset values by £2,990,000 (2019: £1,950,000).

### (b) Credit risk

Credit risk is defined to be the potential for loss that can occur as a result of impairment in the creditworthiness of an issuer or counterparty or a default by an issuer or counterparty on its contractual obligations. Credit risk also extends to encompass the exposure that the Group has to third parties, in the event that they are unable to meet their obligations. All debts due to the Group are reviewed each month and full provision is made for those debts which are considered to be bad and partial provision for those considered to be doubtful, in accordance with IAS 39.

Credit risk limits are intended to constrain the exposure to individual counterparties and issuers, types of counterparties and issuers, countries and types of financing collateral.

The Group assesses the creditworthiness of existing and potential customers and institutional counterparties and determines Group-wide credit risk limits within an agreed risk framework. In addition, the Group reviews and monitors portfolio and other credit risk concentrations. Through the investment managers, the Group also performs ongoing monitoring of credit quality and investment-limit compliance to manage and mitigate credit risk. The Investment Committee sets limits on the exposure to an individual counterparty or issuer taking due account of the probability of it failing to fulfil its contractual obligations.

The Group manages its exposure to policyholder debtors through regular credit control procedures coupled with a stringent policy of holding claims payments until any overdue amounts are received from policyholders.

The largest single counterparty exposure is the UK Government stock of £49.9m. The maximum duration of UK Government stock held at amortised cost is two years.

### (c) Liquidity risk

Liquidity risk relates to the management of the cash flow of the Group. Since the Group has no ability to raise equity funding externally, on account of its legal structure, liquidity risks relate principally to the Group being unable to liquidate an asset in a timely manner at a reasonable price. Such risks are therefore primarily concerned with the construction of the investment portfolio. The Group has no plans to raise capital through the issuance of loan notes nor does it rely on premium income to meet the current outgoings of the business, including claims.

Due to the construction of the investment portfolio and its highly liquid nature, liquidity risk is not regarded as a significant issue. Controls are in place to ensure that the situation does not deteriorate to a position where it could become such. As at the year end the Group held sufficient liquid assets to cover current liabilities.

The following table analyses the financial liabilities of the Group, the majority of which will be settled within twelve months, with £1,641,000 of other payables settled later than twelve months (2019: £1,038,000). The amounts disclosed in the table are the contractual undiscounted cash flows, with estimates for goods and services received at the balance sheet date but not invoiced.

	2020 (£'000)	2019 Restated* (£'000)
Payables arising from direct insurance operations	5,391	4,837
Provision for outstanding claims	10,585	11,007
Other payables	7,866	7,062
	<b>23,842</b>	<b>22,906</b>

\* See note 21 for details of the restatement.

### 20.2 Insurance risk management

Medical insurance is short-tail business and thus the ultimate claims outcome of each year can be predicted with reasonable accuracy at the end of each accounting period. Adverse claims frequency or severity could result in short-term claims costs exceeding premium levels. Management regularly review underwriting ratios and take action as necessary to ensure that results within a financial year are aligned to the medium-term strategy of break-even across the insurance portfolio. The rebates issued in April and June 2020 are examples of this being actively managed. Low claims in 2020, as a result of the pandemic, give rise to greater claims frequency risk in 2021 as customers seek delayed elective treatment. Policies' terms and premium rates are reviewed at least annually or more frequently where performance deviates from expectations. Contracts with major hospital networks are negotiated annually and when our customers require complex medical treatment we work with the healthcare providers to ensure that our policyholders obtain value for money. The financial strength of the business does not necessitate an extensive reinsurance arrangement. The reinsurance coverage during the year was limited to two facultative policies, which have been restated in these financial statements as a non-IFRS 4 insurance contract as a result of the interdependence between the primary and reinsurance contracts.

### 20.3 Capital risk management

The Company is a not-for-profit organisation, which does not have to satisfy the appetite of shareholders for returns. The capital of the business comprises its entire accumulated reserves, as disclosed on the face of the Statement of Financial Position.

As a consequence of its legal structure, the Group has no recourse to external capital and therefore internally generated capital is of paramount importance. There is no significant dissipation of capital through major infrastructure projects: the Group owns the freehold to its office building and expenditure on capital projects is closely controlled. There are ongoing requirements to replace and upgrade IT system, equipment and other assets, but the costs of these additions are met out of regular cash flow. The Group has no plans for any significant capital expenditure in the foreseeable future.

The Board receive regular management information updates on the capital position when measured against the Solvency II Standard Formula and have approved the holistic risk management approach as captured in the ORSA. As at 31 December 2020 the Group's solvency coverage against the standard formula assessment was 447% (2019: 557% – unaudited). Further information can be found in the Solvency & Financial Condition Report on the website – wpa.org.uk.

## Notes to the Accounts continued

### 21 Restatement of insurance and reinsurance contracts to administration income

These financial statements have been restated as a result of two facultative reinsurance contracts and associated primary insurance contracts being reclassified as a single contract due to their interdependence. Whilst gross and reinsurance premiums and claims figures are restated, there is no impact on net earned premium, net claims, loss or reserves. As at 31 December 2019 insurance premium of £4.8m (2018: £3.2m) was included in premium receivable and £4.6m (2018: £3.1m) of reinsurance premium was included in reinsurance premium payable, however, given the insignificant insurance risk the insurance and reinsurance contracts have been reclassified as administration income. The result of this reclassification is to recognise a change in the value of administration income of £0.2m with no net impact on the loss before tax. The changes to receivables and payables has resulted in a change to the notes to the statements of cash flows (note 14). The statements of changes in equity and statements of cash flows have not been restated since they are not affected.

The impact on the closing 2019 consolidated balance sheet is shown in the tables below:

	As at 31 Dec 2019	Change	As at 31 Dec 2019 Restated
	(£'000)	(£'000)	(£'000)
<b>Consolidated Income Statement</b>			
Net insurance premium			
– Premium receivable	113,760	(4,808)	108,952
– Change in unearned premium provision	(1,210)	852	(358)
<b>Premium arising from insurance contract issued</b>	<b>112,550</b>	<b>(3,956)</b>	<b>108,594</b>
– Reinsurance premium payable	(4,600)	4,600	–
– Change in unearned premium provision, reinsurers' share	807	(807)	–
Premium ceded to reinsurance contracts issued	<b>(3,793)</b>	<b>3,793</b>	–
<b>Net insurance premium</b>	<b>108,757</b>	<b>(163)</b>	<b>108,594</b>
Administration income	2,181	163	2,344
<b>Net insurance and administration income</b>	<b>110,938</b>	<b>–</b>	<b>110,938</b>
<b>Investment return</b>	<b>1,232</b>	<b>–</b>	<b>1,232</b>
<b>Total income</b>	<b>112,170</b>	<b>–</b>	<b>112,170</b>
<b>Net insurance claims</b>			
Claims paid	(89,761)	4,030	(85,731)
Less reinsurers' share	4,030	(4,030)	–
<b>Net claims paid</b>	<b>(85,731)</b>	<b>–</b>	<b>(85,731)</b>
Change in the provision for claims	(1,465)	–	(1,465)
<b>Net insurance claims</b>	<b>(87,196)</b>	<b>–</b>	<b>(87,196)</b>
Operating and administrative expenses	(27,175)	–	(27,175)
Investment management expenses	(7)	–	(7)
Corporate Social Responsibility donations	(7)	–	(7)
<b>Total expenses</b>	<b>(114,385)</b>	<b>–</b>	<b>(114,385)</b>
<b>Loss on ordinary activities before tax</b>	<b>(2,215)</b>	<b>–</b>	<b>(2,215)</b>
<b>Tax on loss on ordinary activities</b>	<b>93</b>	<b>–</b>	<b>93</b>
<b>Total loss</b>	<b>(2,122)</b>	<b>–</b>	<b>(2,122)</b>

<b>Consolidated Statement of Financial Position</b>	As at 31 Dec 2019	Change	As at 31 Dec 2019 Restated	As at 31 Dec 2018	Change	As at 1 Jan 2019 Restated
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
<b>Assets</b>						
<b>Post employment benefits</b>	13,618	–	13,618	13,307	–	13,307
<b>Intangible assets</b>	365	–	365	892	–	892
<b>Property, plant and equipment</b>	5,591	–	5,591	4,946	–	4,946
<b>Investment property</b>	3,557	–	3,557	2,712	–	2,712
<b>Deferred acquisition costs</b>	4,421	–	4,421	4,226	–	4,226
<b>Financial assets</b>	185,979	–	185,979	190,510	–	190,510
<b>Loans and other receivables</b>						
– Receivables arising out of direct insurance operations	40,528	(1,202)	39,326	39,254	–	39,254
– Corporation tax recoverable	1,213	–	1,213	–	–	–
– Other receivables	1,698	(960)	738	392	–	392
– Prepayments and accrued income	1,057	–	1,057	1,094	–	1,094
<b>Cash and cash equivalents</b>	7,532	–	7,532	7,186	–	7,186
<b>Total financial assets</b>	<b>265,559</b>	<b>(2,162)</b>	<b>263,397</b>	<b>264,519</b>	<b>–</b>	<b>264,519</b>
<b>Liabilities</b>						
<b>Reserves</b>	189,789	–	189,789	191,877	–	191,877
<b>Post employment benefits</b>	657	–	657	634	–	634
<b>Insurance contract liabilities</b>						
– Provision for unearned premiums	48,098	(65)	48,033	47,695	(20)	47,675
– Claims outstanding	11,007	–	11,007	9,542	–	9,542
<b>Derivative financial instruments</b>	5	–	5	–	–	–
<b>Deferred tax</b>	2,007	–	2,007	1,473	–	1,473
<b>Trade and other payables</b>						
– Payables arising out of direct insurance operations	4,837	–	4,837	5,447	–	5,447
– Other payables	9,159	(2,097)	7,062	7,015	20	7,035
– Current tax liabilities	–	–	–	836	–	836
<b>Total equity and liabilities</b>	<b>265,559</b>	<b>(2,162)</b>	<b>263,397</b>	<b>264,519</b>	<b>0</b>	<b>264,519</b>

## Notes to the Accounts continued

	As at 31 Dec 2019	Change	As at 31 Dec 2019 Restated	As at 31 Dec 2018	Change	As at 1 Jan 2019 Restated
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
<b>Company Statement of Financial Position</b>						
<b>Assets</b>						
<b>Post employment benefits</b>	13,618	–	13,618	13,307	–	13,307
<b>Investment in Group undertakings</b>	934	–	934	934	–	934
<b>Intangible assets</b>	365	–	365	892	–	892
<b>Property, plant and equipment</b>	5,346	–	5,346	4,894	–	4,894
<b>Deferred acquisition costs</b>	4,421	–	4,421	4,226	–	4,226
<b>Financial assets</b>	185,979	–	185,979	190,510	–	190,510
<b>Loans and other receivables</b>						
– Receivables arising out of direct insurance operations	40,528	(1,202)	39,326	39,254	–	39,254
– Amounts owed by Group undertakings	5,579	–	5,579	2,965	–	2,965
– Corporation tax recoverable	965	–	965	–	–	–
– Other receivables	1,062	(960)	102	1	–	1
– Prepayments and accrued income	1,000	–	1,000	1,012	–	1,012
<b>Cash and cash equivalents</b>	1,896	–	1,896	2,449	–	2,449
<b>Total financial assets</b>	<b>261,693</b>	<b>(2,162)</b>	<b>259,531</b>	<b>260,444</b>	<b>–</b>	<b>260,444</b>
<b>Liabilities</b>						
<b>Reserves</b>	186,935	–	186,935	188,782	–	188,782
<b>Post employment benefits</b>	657	–	657	634	–	634
<b>Insurance contract liabilities</b>						
– Provision for unearned premiums	48,098	(65)	48,033	47,695	(20)	47,675
– Claims outstanding	11,007	–	11,007	9,542	–	9,542
<b>Derivative financial instruments</b>	5	–	5	–	–	–
<b>Deferred tax</b>	2,007	–	2,007	1,473	–	1,473
<b>Trade and other payables</b>						
– Payables arising out of direct insurance operations	4,837	–	4,837	5,447	–	5,447
– Other payables	8,147	(2,097)	6,050	6,097	20	6,117
– Current tax liabilities	–	–	–	774	–	774
<b>Total equity and liabilities</b>	<b>261,693</b>	<b>(2,162)</b>	<b>259,531</b>	<b>260,444</b>	<b>–</b>	<b>260,444</b>

### 22 Future accounting disclosures

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and (in some cases) had not yet been adopted by the EU:

- IFRS 9 Financial instruments – classification and measurement.
- IFRS 17 Insurance contracts.
- IAS 1 Presentation of financial statements, amendment regarding classification of liabilities as current or non-current.
- IAS 16 Property, plant and equipment, amendment regarding proceeds before intended use.
- IAS 37 Provision, contingent liabilities and contingent assets, amendment regarding onerous contracts.

IFRS 9 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. As reported in last year's report & accounts, the Group applies the temporary exemption from IFRS 9 Financial instruments, as defined in the amendment "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – IFRS 4 amendments" issued by the IASB in September 2016. This amendment allows an entity to defer the implementation of IFRS 9 if its activities are predominantly connected with insurance. As a result, the Group will continue to apply IAS 39, Financial Instruments: Recognition and Measurement in its financial statements until the reporting period beginning on 1 January 2022.

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The Group concluded that it qualified for the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. The Group's percentage of its gross liabilities connected with insurance relative to its total liabilities at 31 December 2015 was 99%. Liabilities connected with insurance comprise the liabilities arising from contracts within the scope of IFRS 4 for a total amount of £55.3m, liabilities from non-derivative investment contracts measured as at FVPL for a total amount of £0.3m and liabilities that arise as the insurer fulfils obligations arising from contracts within the scope of IFRS 4 and non-derivative investment contract liabilities measured at FVPL (e.g., liabilities for other payables directly associated with those obligations) for a total amount of 4.2m.

Since the balance sheet date there has been no significant change in activities of the Group that requires reassessment of the use of the temporary exemption from IFRS 9.

The Group's percentage of its gross liabilities from contracts within the scope of IFRS 4 relative to its total liabilities at 31 December 2015 was 99% which is in excess of the 90% threshold required by IFRS 4.

The Group is currently assessing the impact of IFRS 17 and the amendment to IAS 1, which are effective for annual reporting periods beginning on or after 1 January 2023.

The Group is currently assessing the impact of the amendments to IAS 16 and IAS 37, which become effective for annual periods beginning on or after 1 January 2022.

The other standards in issue but not yet effective are not expected to significantly impact the Group.

### 23 IFRS 9 deferral

The Group applies the temporary exemption from IFRS 9 Financial Instruments, as defined in the amendment "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – IFRS 4 amendments" issued by the IASB in September 2016. This amendment allows an entity to defer the implementation of IFRS 9 if its activities are predominantly connected with insurance. As a result, the Group will continue to apply IAS 39, Financial Instruments: Recognition and Measurement in its financial statements until the reporting period beginning on 1 January 2023.

The Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015.

The Group concluded that it qualified for the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. The Group's percentage of its gross liabilities connected with insurance relative to its total liabilities at 31 December 2015 was 99%. Liabilities connected with insurance comprise the liabilities arising from contracts within the scope of IFRS 4 for a total amount of £55.3m, liabilities from non-derivative investment contracts measured as at FVTPL (Fair Value through Profit and Loss) for a total amount of £0.3m and liabilities that arise as the insurer fulfils obligations arising from contracts within the scope of IFRS 4 and non-derivative investment contract liabilities measured at FVTPL (e.g., liabilities for other payables directly associated with those obligations) for a total amount of 4.2m.

During 2020 and 2019, there has been no significant change in activities of the Company that requires reassessment of the use of the temporary exemption from IFRS 9.

The Company's percentage of its gross liabilities from contracts within the scope of IFRS 4 relative to its total liabilities at 31 December 2015 was 99% which is in excess of the 90% threshold required by IFRS 4.

The table below presents an analysis of the fair value of the classes of financial assets as at the end of the reporting period. The financial asset classes are divided into two categories:

- (i) **SPPI (Solely Payments of Principal Interest):** assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount, but are not meeting the definition of held for trading in IFRS 9, or are not managed on a fair value basis; and,
- (ii) **Fair Value Option:** assets that follow the fair value option at initial recognition and carried at FVTPL (Fair Value through Profit and Loss); and,
- (iii) **Other (at FVTPL):** all financial assets other than those specified in SPPI and Fair Value Option, financial assets: (a) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; (b) that meet the definition of held for trading in IFRS 9; or, (c) that are managed and whose performance are evaluated on a fair value basis.

## Notes to the Accounts continued

	Solely Payments of Principal and Interest	Fair Value Option	Other (at FVTPL)	Total
As at 31 December 2019 Restated*	(£'000)	(£'000)	(£'000)	(£'000)
Debt securities	110,667	–	–	110,667
Equity securities	–	–	7,650	7,650
Loans and receivables	–	–	41,278	41,278
Collective investment schemes – Equities	–	–	29,732	29,732
Collective investment schemes – Money market funds	–	–	1,572	1,572
Derivatives	–	–	1,811	1,811
Cash collateral	–	–	1,440	1,440
Cash and cash equivalents	–	–	40,638	40,638
<b>Total financial assets</b>	<b>110,667</b>	<b>–</b>	<b>124,121</b>	<b>234,788</b>

\* Loans and receivables have been restated in relation to note 21.

	Solely Payments of Principal and Interest	Fair Value Option	Other (at FVTPL)	Total
As at 31 December 2020	(£'000)	(£'000)	(£'000)	(£'000)
Debt securities	58,715	–	–	58,715
Equity securities	–	–	3,950	3,950
Loans and receivables	–	–	42,108	42,108
Collective investment schemes – Equities	–	–	55,874	55,874
Collective investment schemes – Money market funds	–	–	36,200	36,200
Derivatives	–	–	2,298	2,298
Cash collateral	–	–	1,520	1,520
Cash and cash equivalents	–	–	38,796	38,796
<b>Total financial assets</b>	<b>58,715</b>	<b>–</b>	<b>180,746</b>	<b>239,461</b>

### Change in fair value

Debt securities	(51,952)	–	–	(51,952)
Equity securities	–	–	(3,700)	(3,700)
Loans and receivables	–	–	830	830
Collective investment schemes – Equities	–	–	26,142	26,142
Collective investment schemes – Money market funds	–	–	34,628	34,628
Derivatives	–	–	487	487
Cash collateral	–	–	80	80
Cash and cash equivalents	–	–	(1,842)	(1,842)
<b>Total financial assets</b>	<b>(51,952)</b>	<b>–</b>	<b>56,625</b>	<b>4,673</b>

For financial assets whose cash flows represent SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides information on credit risk exposure (rated by Standard & Poor's). The financial assets are categorised by asset class with a carrying amount measured in accordance with IAS39 measurement requirements (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).

# Notes to the Accounts continued

	Debt securities	Equity securities	Loans and receivables	Collective investment schemes – Equities	Collective investment schemes – Money market funds	Derivatives	Cash collateral	Cash and short-term deposits	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
<b>As at 31 December 2019</b> Restated*									
AAA	–	–	–	–	1,572	–	–	–	1,572
AA	106,403	–	–	–	–	–	–	1,009	107,412
A	1,875	–	–	–	–	–	–	22,935	24,810
BBB	2,389	–	–	–	–	–	–	16,694	19,083
Without external rating	–	7,650	41,278	29,732	–	1,811	1,440	–	81,911
	<b>110,667</b>	<b>7,650</b>	<b>41,278</b>	<b>29,732</b>	<b>1,572</b>	<b>1,811</b>	<b>1,440</b>	<b>40,638</b>	<b>234,788</b>

\* Loans and receivables have been restated in relation to note 21.

	Debt securities	Equity securities	Loans and receivables	Collective investment schemes – Equities	Collective investment schemes – Money market funds	Derivatives	Cash collateral	Cash and short-term deposits	Total
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
<b>As at 31 December 2020</b>									
AAA	–	–	–	–	36,200	–	–	–	36,200
AA	49,901	–	–	–	–	–	–	1,012	50,913
A	1,830	–	–	–	–	–	–	22,338	24,168
BBB	6,984	–	–	–	–	–	–	13,111	20,095
Without external rating	–	3,950	42,108	55,874	–	2,298	1,520	2,335	108,085
	<b>58,715</b>	<b>3,950</b>	<b>42,108</b>	<b>55,874</b>	<b>36,200</b>	<b>2,298</b>	<b>1,520</b>	<b>38,796</b>	<b>239,461</b>

For assets that do not have low credit risk as determined by the Group and of which cash flows represent SPPI, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis, the table below provides the credit risk exposure from the financial assets held by the Group. The financial assets are categorised by asset class with a carrying amount and fair value measured in accordance with IAS 39 measurement requirements.

<b>As at 31 December 2020</b>	<b>Carrying amount (£'000)</b>	<b>Fair Value (£'000)</b>
Debt securities	58,715	58,740

## 24 Events after the reporting period

The corporation tax rate at 31 December 2020 was 19%. During the March 2021 Budget the main tax rate was increased to 25% from 1 April 2023. As the change had not been substantively enacted at the balance sheet date, its effect is not included in these financial statements. However, if it had been substantively enacted the most significant impact would be on deferred taxation and it would not have had made a material difference.

## Our standards are high

On an annual basis we are independently audited by the BSI certification body for four internationally recognised standards. These reflect our service excellence provided to our customers, whether big global employers, medium sized businesses or the many thousands of UK individuals and families.

### Quality Management : ISO 9001:2015

The internationally recognised Standard for Quality Management systems placing emphasis on achieving customer satisfaction and continual improvement.

### Business Continuity Management : ISO 22301:2012

A management system to restore our ability to supply critical services to an agreed level following a disruption to service.

### Environmental Management : ISO 14001:2015

The internationally recognised Standard for Environmental Management systems – one of the highest benchmarks in environmental management and best practice.

### Information Security Management : ISO 27001:2013

The benchmark for protecting valuable and sensitive customer information.



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