



Western Provident Association

# Solvency and Financial Condition Report

As at 31 December 2022



FS 28452



BCMS 538164



EMS 505226



IS 553152

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# Article 292 Summary

## Executive Summary

### Introduction

The purpose of the Solvency and Financial Condition Report (“SFCR”) is to provide information about the capital position of Western Provident Association Limited (“WPA” or the “Company”) based on the Solvency II requirements. The report includes information regarding the Company’s business and performance, system of governance, risk profile, valuation for solvency purposes and capital management.

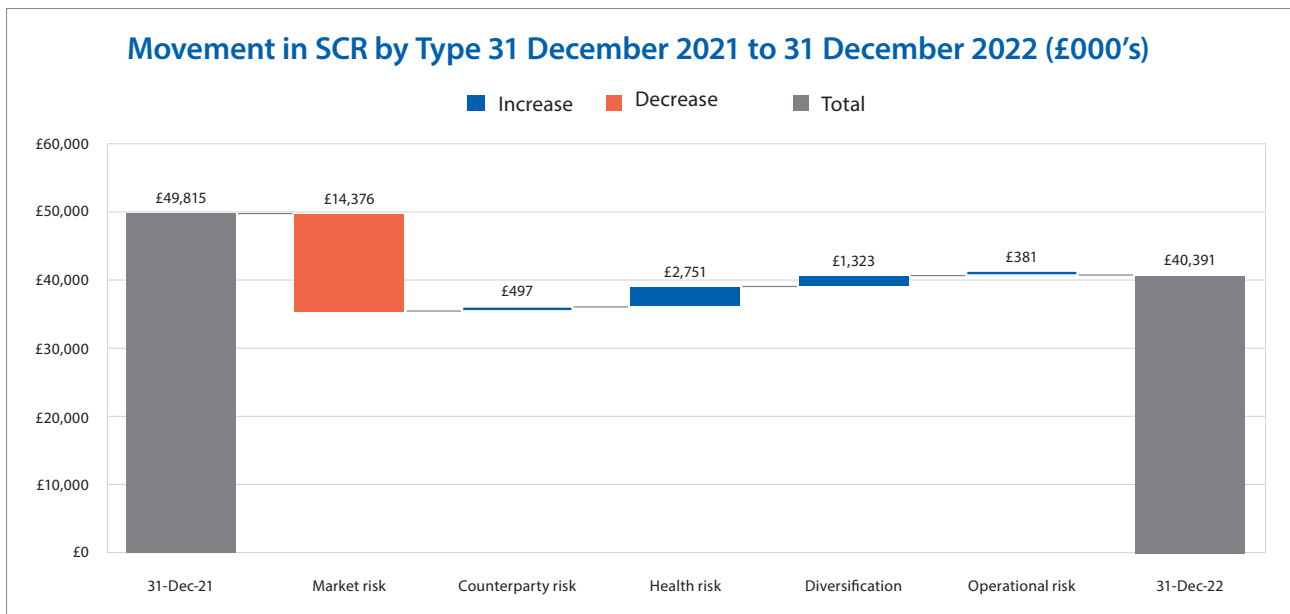
### Overview

WPA is a UK medical insurer. It is the Parent Company of the WPA Group (“the Group”) and is the sole insurer within the Group. The insurance arrangements written by WPA comprise solely short-term contracts. These general insurance contracts indemnify customers against costs specified in the insurance contract that are incurred as a result of medical treatment for acute conditions.

WPA is a private company limited by guarantee. Our status as a company limited by guarantee is not commonplace 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 balance sheet. The investment portfolio that has been built over a century of careful investment represents the unrestricted capital of the Company. This exists to support, but not subsidise, the commitments we make to our customers under the insurance contracts.

### Summary capital position

	unaudited	
	2022	2021
	£’000	£’000
Solvency Capital Requirement (SCR)	40,391	49,815
Minimum Capital Requirement (MCR)	10,098	12,454
Total eligible own funds to meet SCR	162,407	183,642
SCR coverage by total eligible own funds	402%	369%



The SCR decreased from £49.8m to £40.4m between December 2021 and December 2022. The SCR has decreased primarily due to a reduction in the capital charge applied to equities and a decrease in the value of equities held in the investment portfolio in 2022.

## Review of 2022

Looking back at 2022, the year has been dominated by political and economic events, with Russia's invasion of Ukraine in February and two new UK Prime Ministers in the space of six weeks during the autumn months. Both of these events caused worldwide turmoil and had a significant impact on our investment markets, plus the knock-on effect of rising UK inflation. The first of these events caused a loss of investment return and market value which negatively impacted our results. A higher inflationary environment increased costs and consequently prices, which in the short-term negatively impacted our results. Strong competition in the employment market for skilled employees encourages employers to consider their benefit packages. This, linked with the current position of the NHS, means that private medical insurance, as an employee benefit, is now more widely sought after and has led to strong sales during the year.

Net premium income of £130.9m (2021: £118.1m) for the year reflects a full year of premium from our renewing customers, in addition to premium for a net increase of 14% for new lives on cover. There have been increases in numbers on cover in all areas of our business.

Claims costs have increased in the year in part as a result of a higher number of lives covered, whilst also reflecting the waiting lists of the NHS and people's ability to make appointments with their GP, dentist and therapists; this produced a claims ratio of 83.6% (2021: 82.1%). Our claims authorisation levels remained high at 97.7% (2021: 97.5%) of properly presented claims.

Overall operating and administrative expenses have increased from £29.3m to £34.9m. This can be attributed to an increase in new business acquisition costs and an increased headcount and variable costs to service our higher customer numbers; alongside this we incurred spend relating to the viability of carbon reducing initiatives, one of which is likely to come to fruition during 2023.

Global investment markets during 2022 were challenging. Russia's invasion of Ukraine triggered significant price rises in energy and food, and this coupled with ongoing supply chain issues led to the highest level of inflation in 40 years. Fears of recession put downwards pressure on stock market valuations and central banks responded to rising inflation by increasing interest rates which put downward pressure on bond valuations. This led to the unusual conditions of negative returns in both equity and fixed income for many investment portfolios. In early 2022 we reduced our equity exposure in recognition of the escalating tensions between Russia and Ukraine. This action,

combined with our low-risk portfolio which already had a high allocation to government stock, resulted in a loss in the year of 4.4%. Whilst this was short of our target return of CPI, the primary objective of the portfolio is to preserve capital and in the context of the market conditions, this result was considered acceptable.

The business remains well capitalised with a Solvency Capital Requirement coverage ratio of 402% – unaudited (2021: 369% unaudited). The increase in coverage is primarily as a result of a decrease in equity risk charge. The total available capital is £162.4m – unaudited (2021: £183.6m).

## 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.

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

### Premium receivable

**£138.0m** (2021: £120.9m)

Premium receivable.

### Combined operating ratio

**107.7%** (2021: 104.7%)

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

### Solvency II SCR coverage

**4.0** (2021: 3.7)

Available regulatory capital divided by standard formula assessment.

### Net investment return

**-4.4%** (2021: 2.0%)

Return as a percentage of financial assets.

### Claims authorised

**97.7%** (2021: 97.5%)

Percentage of properly presented claims authorised.

### Customer Numbers

**370,038** (2021: 325,342)

Total number of customer base and prior year comparator figure.

### Claims Ratio

**83.6%** (2021: 82.1%)

Ratio of net insurance claims to net insurance premium.

## Future outlook

The areas with the most impact on the Company's future remain the UK economy and the healthcare market. The expectation is that customer numbers will continue to grow as more people see private healthcare as a necessity, rather than a luxury. This is likely to be paid for by employers wishing to retain their workforce. Improvements in NHS waiting lists and the ability to see NHS GPs, dentists or therapists are unlikely to have significant impact in the short or medium-term. As was the case during 2022 the private healthcare sector expanded their capacity to absorb some excess demand and this is likely to continue.

The UK is currently experiencing high inflation levels. This can be seen with both a positive and negative angle. The costs of the business are increasing, most specifically employment costs, but

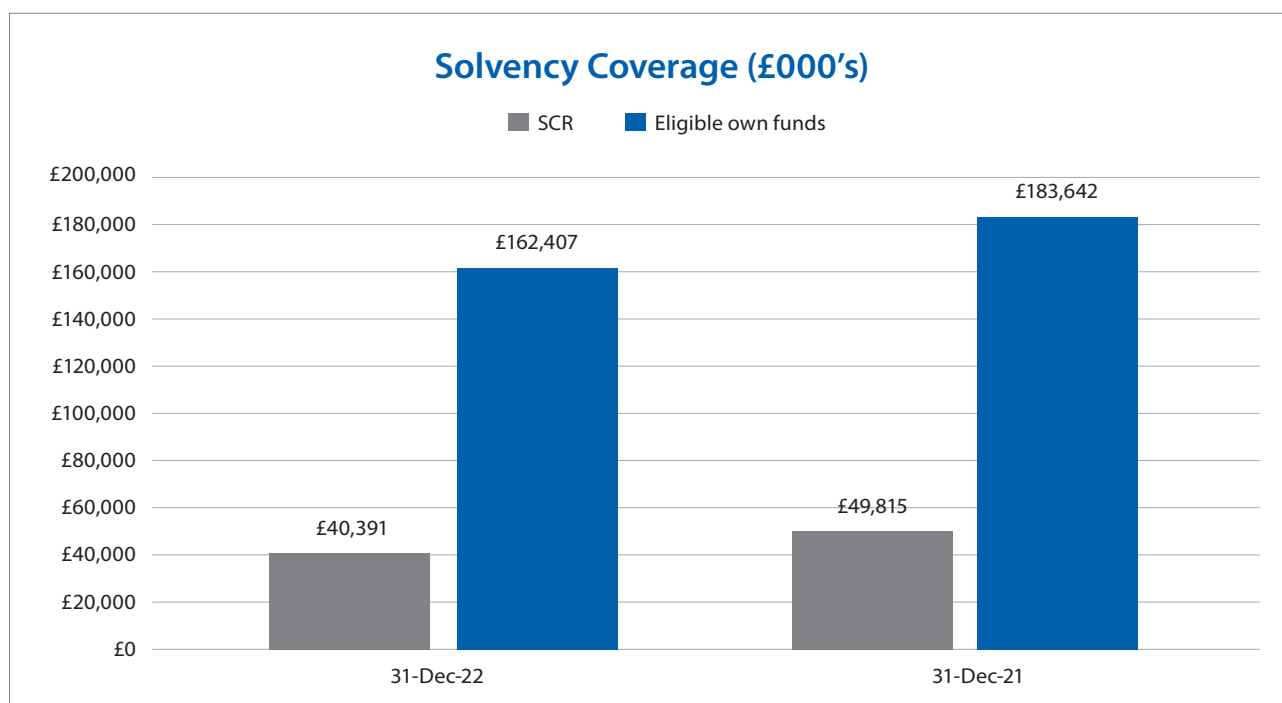
this is partially offset by the increased return that Government instruments and corporate bonds can generate. Ultimately this will be balanced by ensuring that the product pricing is appropriate.

Overall the Board is positive for the outlook for WPA 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.

## Governance Framework

WPA is controlled by the Board of Directors, who act as stewards of the business. The Board has implemented a robust governance framework that provides oversight to all of the Group's operations. The combined output from the governance framework and the risk management activities is captured in the Own Risk and Solvency Assessment ("ORSA"), which is regularly reviewed by the Board, with monthly dashboard reporting.

## Capital Position



WPA prepares its Solvency Capital Requirement (SCR) under the Standard Formula. The SCR is sensitive to the composition of the investment portfolio and can be expected to be volatile depending on the level of market risk within the portfolio. For example, between December 2014 and December 2022 the SCR has varied between £79m and £30m.

The portfolio asset allocation as at 31 December 2022 saw a decrease in equity holdings in the portfolio from the prior year, which is reflected in the movement in our market risk SCR capital requirement. During 2023 the expectation is that a similar level of market risk exposure will be maintained within the portfolio, perhaps increasing as the economic environment improves.

# Directors approval of the Solvency and Financial Condition Report

The Board of Directors of Western Provident Association Limited (WPA) certifies that:

- The Solvency and Financial Condition Report (SFCR) has been properly prepared in all material respects in accordance with the PRA rules and Solvency II regulations.
- Throughout the financial year ended 31 December 2022, WPA has complied in all material respects with the applicable requirements of the PRA rules and Solvency II regulations.
- It is reasonable to assert that at the date of signing the SFCR, WPA has continued to comply and will continue to comply in future.

Peter Venables  
Executive Director and Chief Risk Officer  
29 March 2023

# Audit Statement

## Small insurers' exemption for external audit purposes

This document has been completed in accordance with the PRA Policy Statement PS25/18 "Solvency II: External audit of the public disclosure requirement" and S11/16 "Solvency II: External audit of, and responsibilities of the governing body in relation to, the public disclosure requirement". Consequently, this document has not been subject to external audit.

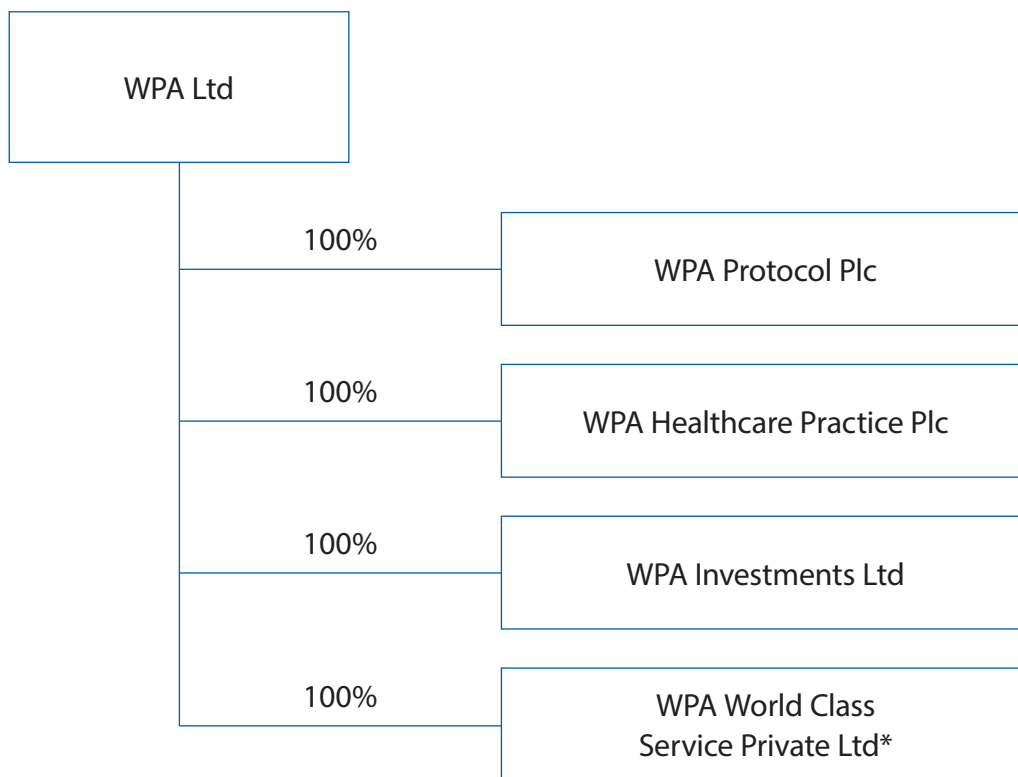
# Article 293

## Business and Performance

### 1. Business Strategy and Overview

Western Provident Association Limited (WPA) is a company limited by guarantee; it is domiciled, incorporated and registered in England under number 00475557 and regulated by the UK Prudential Regulation Authority and Financial Conduct Authority. WPA is the Parent Company of the WPA Group. The external auditor is Deloitte LLP, Bristol, UK.

#### WPA Group Structure



\* Incorporated in India

Excludes dormant subsidiaries

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 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, plus current liabilities, are held in UK Government stocks or cash. 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 underpin the financial stability of the business. 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.

## 2. Underwriting Performance

The Company is a mono-line medical insurer based in the UK that writes business in the UK and Crown dependencies. Its customers are private individuals, small and medium sized enterprises (SMEs) as well as large blue-chip companies. Private individuals and SMEs generally are insured under a twelve-month traditional insurance contract. The larger organisations either have a full insurance contract, a high corporate deductible excess policy or a stop-loss policy, which sits alongside a healthcare administration contract with WPA's subsidiary – WPA Protocol Plc.

Most of the insurance contracts are twelve months in duration. These general insurance contracts indemnify customers against costs specified in the insurance contract that are incurred as a result of medical treatment for acute conditions. The providers of medical treatment, typically hospitals and specialists have a vested interest in being paid for the services they provide, which results in a very short time lag between treatment taking place and the insurance liability being settled. This “short tail” for claims settlement results in circa 90% of the claims reserve being utilised within three months, which in turn provides a high degree of accuracy when assessing the underwriting performance of a financial year.

Overall, the business aims to break-even in the medium-term. Claims ratios are budgeted at a divisional level, which when taken together with the associated costs aim for a combined ratio of between 97% and 103%. The average combined ratio over the last three years was 103.5%. During 2022 increased claims costs due to pressure being faced by the NHS fuelling private health provision and high cost inflation, resulted in a combined ratio of 107.7%.

WPA prepares its financial statements in accordance with International Financial Reporting Standards. The numbers below are taken from the WPA Group financial statements.

<b>WPA Group</b>	<b>2022</b> <b>£'000</b>	<b>2021</b> <b>£'000</b>
Gross Written premium	138,022	120,935
Change in unearned premium	(7,128)	(2,848)
<b>Net Earned Premium</b>	<b>130,894</b>	<b>118,087</b>
<b>Claims incurred</b>	<b>(109,418)</b>	<b>(97,003)</b>
<b>Claims Ratio</b>	<b>83.6%</b>	<b>82.1%</b>
Other Income	3,054	2,545
Operating and Administrative expenses	(34,853)	(29,255)
<b>Insurance (deficit)/surplus</b>	<b>(10,323)</b>	<b>(5,626)</b>
<b>Combined ratio</b>	<b>107.7%</b>	<b>104.7%</b>

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

### 3. Investment Performance

As a company limited by guarantee, WPA is solely reliant on its own resources, with no readily available access to external funding or the ability to raise share capital. The investment portfolio therefore has the modest objective of maintaining the real value of the portfolio. Capital preservation, not growth, is paramount.

The Company's investment portfolio was defensively positioned throughout the year and the Company produced an overall gross investment loss of £5.8m (2021: gain of £7.9m); this figure includes dividends from subsidiaries.

Global investment markets during 2022 were challenging. Russia's invasion of Ukraine triggered significant price rises in energy and food, and this coupled with ongoing supply chain issues led to the highest level of inflation in 40 years. Fears of recession put downwards pressure on stock market valuations and central banks responded to rising inflation by increasing interest rates which put downward pressure on bond valuations. This led to the unusual conditions of negative returns in both equity and fixed income for many investment portfolios. In early 2022 we reduced our equity exposure in recognition of the escalating tensions between Russia and Ukraine. This action, combined with our low-risk portfolio which already had a high allocation to government stock, resulted in a loss in the year of 4.4% (2021: gain of 2.0%). Whilst this was short of our target return of CPI, we maintained our commitment of holding UK Government stock and cash to back our ORSA and deployed a low risk strategy in the remainder of the portfolio. The primary objective of the portfolio is to preserve capital and in the context of the market conditions, this result was considered acceptable.

As the published solvency capital ratios demonstrate, WPA is very well capitalised and this allows the business to adopt a low-risk strategy, beneficial to the business in the long-term.

## Investment return by asset class

Company Investment Return	2022 £'000	2021 £'000
UK Gilts	444	84
Treasury bills	13	6
Cash	96	13
<b>Solvency and liquidity funds return</b>	<b>553</b>	<b>103</b>
Treasury bills	-	-
UK Gilts	-	-
Cash instruments – Sterling	180	48
Cash instruments – US Dollars	22	90
Forward currency contracts <sup>1</sup>	(3,216)	139
Corporate bonds	384	104
Commodities	507	(171)
UK equity (including dividends from subsidiaries)	997	5,193
Global equity	(5,235)	2,376
<b>Investment fund return</b>	<b>(6,361)</b>	<b>7,779</b>
Direct Investments expense	(32)	(7)
<b>Total portfolio return</b>	<b>(5,840)</b>	<b>7,875</b>

The UK equity performance was impacted by the decrease in value of £0.85m of strategically held investments and £1.85m received as dividends from subsidiaries.

## 4. Subsidiary Companies

WPA Protocol Plc is a primary subsidiary, which administers healthcare trusts and is an appointed representative of WPA. This business provides a dividend flow to WPA – £1.1m in 2022 (2021: £2.8m).

The majority of large corporate customers execute their healthcare arrangements through a Healthcare Trust. WPA Protocol is a leading administrator of Corporate Healthcare Trusts for blue chip businesses. On a statutory basis this business appears to generate a modest contribution to the Group's results, but the underlying economic benefit is far greater. This business when measured on a like-for-like basis increases the footprint of WPA by 62%, thus increasing WPA's purchasing power with the medical profession, the benefit of which is experienced across both insured and administered customers.

<sup>1</sup> All forward currency contracts are held to hedge assets denominated in foreign currencies. The hedge effectiveness is carefully monitored.

WPA Healthcare Practice Plc is an FCA authorised insurance intermediary and licenses franchisees (Healthcare Partners) from across the UK, who advise on WPA's range of retail and licensed corporate products for small and medium sized enterprises. The Company paid a dividend to WPA in 2022 of £0.8m (2021: £1.6m).

WPA Investments Limited is a wholly owned subsidiary that manages the properties owned by the WPA Group.

WPA World Class Service (India) Private Ltd is a wholly owned subsidiary based in India that carries out back-office administrative data processing on behalf of the WPA Group.

# Article 294

## System of Governance

### 1. Overview

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, its values and culture. Collectively, the Board is responsible for the Group's system of corporate governance. A Schedule of Matters Reserved for the Board is in place, setting out those matters that are ultimately Board responsibilities; where applicable, the Board will consider the recommendations of the appropriate Board Advisory Committee.

In accordance with its Articles of Association, WPA maintains a greater number of Non-Executive Directors than Executive Directors and with their particularly wide experience their role is to bring independent judgement to the Board. A meeting of the independent Non-Executives, both with and without the Chairman, is held annually. The Non-Executive Directors have access to any information or independent professional advice they require and, as part of their role, regularly spend time working alongside staff in all parts of the Group.

The Board has a formal Code of Conduct and schedule of matters specifically reserved to it, which can only be amended by the Board itself and which is reviewed annually.

The structure and composition of the Board is kept under review and the Board considers the identification and nomination of new directors and the continuation of existing directors in office. There is a formal procedure for Directors to obtain independent professional advice, should this be necessary in the furtherance of their duties.

The Company is regulated by the PRA and the FCA as a general insurer and consequently has a Responsibilities Map, which defines the regulated activities and the individuals responsible for their performance as defined under the Senior Manager Certification Regime. 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.

### *Organisational structure*

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 review by the Risk Committee, formally approves the Group Risk Appetite Statements and other related policies. 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 management of business risk is the responsibility of the executive management of the Group, managed through the Executive Leadership Team meetings. This meets regularly and comprises the Executive Directors and the Senior Management Team. Organisational arrangements include

clearly defined lines of responsibility and limits of authority. The identification of critical risks and the control environment are continuously monitored by the Operational Risk Team, which is chaired by the Chief Risk Officer and reports to the Risk Committee and to the Executive Leadership Team.

The Board committees have written statements of principles, which clearly define authorities and responsibilities. All committees meet regularly and their minutes are placed on the Agenda of the Board or are available for inspection. Committee remit and membership are reviewed annually; some of the committees include members who are not directors, where they bring a particular expertise.

### *Audit Committee*

The primary responsibility of the Audit Committee is the oversight of the internal audit function, external audit, and other providers of assurance. In executing this responsibility, the Audit Committee:

- Acts as steward to the financial and operational integrity of WPA, ensures compliance with statutory and other relevant requirements in public statements of a financial nature.
- Provides objective challenge and oversight with regard to the published annual Statutory Financial Statements, the ISAE3402 Client Money Report, the Solvency and Financial Condition Report and any other relevant Regulatory Returns.
- Provides objective oversight of the effectiveness of the Company's internal control framework, systems and processes.
- Oversees the adequacy of the Group's whistle-blowing policy.

The Audit Committee monitors and reviews the internal audit function for the WPA Group. Internal audit is part of the systems of risk governance and provides independent assurance over the internal control system. 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.

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 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 SFCR. The Committee has oversight of the SFCR before it is approved by the Board, it is subject to an external audit periodically, as determined by the Audit Committee. The 31 December 2020 SFCR is the most recent SFCR to have been subject to an external audit.

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.

### *Investment Committee*

The Investment Committee has clear investment 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 maintain the Group's capital comfortably to meet regulatory requirements.

### *Medical Advisory & Clinical Governance Committee*

The Medical Advisory & 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.

### *Nomination and Governance Committee*

The Nomination and Governance Committee leads the process for appointments to the Board, Board Committees, subsidiaries within the WPA Group and positions captured under the Senior Managers Certification Regime.

### *Personnel Committee*

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.

### *Remuneration Committee*

The Remuneration Committee primarily is designed to support the strategy and promote the long-term success of WPA.

The Remuneration Committee has delegated responsibility for determining the Remuneration Policy for Executive Directors.

The Committee is comprised of Non-Executive Directors who are considered to be independent.

### *Remuneration Policies and Practices*

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 the incentives and rewards with culture. These factors are taken into consideration when setting the Executive Director Remuneration Policy.

As a company limited by Guarantee there are no beneficial shareholders or share option schemes.

## *Risk Committee*

The primary responsibility of the Risk Committee is as a steward of the Risk Management Framework for the WPA Group and to provide objective oversight of the risk management process. In executing this responsibility, the Risk Committee ensures that:

- WPA remains compliant with relevant legislation and regulation;
- The insurance activities do not expose the Company to significant adverse financial results;
- Customers are treated as we would wish to be treated ourselves, consistent with the principal of ensuring fair outcomes for customers;
- The investment portfolio is structured in accordance with the Company's risk appetite and the PRA Investment Rulebook;
- Operational Risk and financial crime is managed;
- Assets and liabilities are appropriately managed;
- There is sufficient liquidity to settle liabilities as they fall due;
- The reinsurance arrangements are appropriate;
- Underwriting and reserving risks are managed;
- The Governance Map and Key Functions are appropriate and correct;
- The basis on which the regulatory capital is computed for inclusion in statutory reports is adequate; and
- A risk awareness culture is promoted throughout the Company.

The Risk Committee receives reports from the Compliance Monitoring Group, the Distribution Monitoring Group, the Operational Risk Team, the Security Advisory Committee and the Actuarial & Product Governance Committee. It reviews the ORSA, the Group Risk Appetite Statements and the Regular Supervisory Report.

The Board retains overall responsibility for internal control and the identification and management of business risk.

## 2. Fit and Proper Requirements

All senior appointments are vetted for fitness and propriety, including identity verification, references from previous employers and Disclosure and Barring Service checks. All Board appointments are subject to the approval of the nominations committee. Ongoing capability assessment is conducted through annual performance assessments for all Board members and senior staff.

The Company has implemented the Senior Manager Certification Regime (SMCR). The Board has approved each SMCR role and other key roles based on the knowledge skills and experience necessary to fulfil the position.

### 3. Risk Management System

The Group's risk management system is described in the Risk Management Framework ('RMF') which is embedded across the business. The RMF comprises our systems of governance and culture, our risk strategy and our risk management processes. The RMF describes the processes, procedures and policies used to identify, measure, mitigate, monitor and report risk.

#### **Systems of Governance**

Oversight of the risk management system is provided by the Risk Committee, which is a Board Advisory Committee. The Risk Committee is comprised of Non-Executive Directors.

Our systems of risk governance are underpinned by the three lines of defence:

1. Business and core support functions have primary responsibility for identifying, managing, and reporting risks, and for ensuring that controls are designed and operate effectively.
2. The second line, led by the Chief Risk Officer, comprises the Risk Function and Compliance. The Risk Function is responsible for the risk management system, for constructively challenging the first line and providing guidance on risk matters. Compliance is responsible for developing, maintaining and monitoring compliance processes across the Group.
3. The third line is internal audit which is responsible for independent evaluation of the internal control system and other systems of governance, supplemented by external auditors who focus on financial reporting, ISAE 3402, QMS and ISO standards.

Other components of our systems of governance include our ORSA, our internal control system and the Actuarial Function. These components contribute to the effectiveness of the risk management system.

Finally, a healthy, purposeful culture, is an important part of the systems of risk governance. Our purpose, to enable our customers to access the best possible healthcare, is at the centre of the decisions we make. The unquestionable focus on good customer outcomes as opposed to profitability creates a positive environment within which to manage risk.

#### *Risk Strategy*

Our strategy and our business plan seek to fulfil our purpose, by aligning to two strategic goals; we must ensure that we treat our customers as we wish to be treated ourselves and we must maintain WPA as a healthy organisation. Group strategy and risk appetite are developed in tandem, with the business plan aiming to fulfil our customer goals within the risk appetite parameters that will ensure the organisation continues to be strong and healthy. The ORSA is an important tool in ensuring that we develop a business plan that aligns with our risk appetite.

The Group's Risk Appetite Statements detail the parameters within which we operate. The statements form part of the Risk Management Framework, around which risk policies, metrics, controls and decision making are based. Risks are identified, managed, mitigated, monitored and reported using our Risk Management Framework. This is the foundation for the delivery of effective risk control.

Overall the Group defines its Risk Appetite as 'Conservative'. This is evidenced in the qualitative Group Risk Appetite Statements and in our more granular Key Risk Indicators that underpin these.

### *Risk Management Processes*

Our risk management processes set out how we identify, measure, monitor, manage and report risks. These processes operate at a granular level before being aggregated for reporting purposes. The processes are as follows:

*Risk Identification:* Risks are initially identified through either; 1. the Risk Group, which comprises Leadership Team members attending the Operational Risk Team meeting; and 2. through focused emerging risk workshops which take place on a cyclical basis as part of the Risk Committee activities. Risks are captured in the risk register under five categories; Governance, Conduct, Operational, Insurance and Financial risks.

*Risk Measurement:* Risks recorded in the risk register are assessed using expert judgement. They are assigned a rating between 1 and 4, 4 being the highest and indicative of a risk that requires regular Board level oversight. A framework is in place to enable management to apply a consistent measurement of risks that are recorded in the risk register.

*Risk Management:* A variety of risk mitigation strategies used by the Group to manage risk, these include risk acceptance, avoidance, termination, transfer and reduction. Policies are in place for individual risk categories which set out the risk management strategy for different risks. Internal controls are a key component of Risk Management and key controls are recorded in the Risk Register.

*Risk Monitoring:* Key risk indicators (KRI) are in place for each risk category which quantify our qualitative Group Risk Appetite Statements. A tolerance is in place for each KRI which is recommended by the Risk Committee for Board approval.

More granular monitoring takes place within each risk category, with oversight from the relevant risk category owner – this more granular monitoring is described in each risk policy. Control attestations provide insight into whether any controls have failed and where they have these are assessed at the Operational Risk Team meetings.

*Risk Reporting:* Key risk indicators are reported to the Board on a monthly basis as part of the Management Accounts. The Risk Register is reviewed on a quarterly basis, and a Top and Emerging Risk report is shared with the Risk Committee which summarises those risks requiring more attention. The ORSA Report is reviewed and updated at least annually, and more often if a trigger event occurs.

The ORSA Requirement, Operational Risk Team Reports, Management Accounts, Investment Value at Risk, Customer Outcomes Report & SIMR Map are other important Risk Tools produced to help to monitor and report risks at a Board level.

The Risk Committee Annual Cycle ensures that the various elements of the Risk Management Framework are reviewed by the Risk Committee on a regular basis.

## 4. Own Risk and Solvency Assessment (ORSA)

The Chief Risk Officer is responsible for the ORSA. The purpose of the ORSA is to:

- Set out and assess the principal risks faced by the business both now and in the future in the context of the current strategy, plans and performance.
- Document the business' self-assessment of the capital required to meet these risks over the business planning period and how this compares with the Standard Formula, thereby assessing the adequacy of the Standard Formula.
- Understand how the capital required changes under stressed conditions, to test the loss absorbing capacity of the business under different scenarios and outline contingency plans and management actions should they be needed.

Oversight and review of the ORSA is performed by the Risk Committee. This includes consideration of the stress scenarios that are assessed. In line with the Prudential Regulation Authority's guidelines the document clearly details the requirements of the Board, including review and approval of strategy and risk appetite for each area of the business.

The ORSA also:

- Demonstrates embedded links between business strategy, risk, capital and stress testing, and shows consideration of both internal and external risks;
- Includes a summary of recent performance and a three year forecast;
- Shows the overall direction of the group from a strategic and risk perspective; and
- Details the current key and emerging risks that are identified and how they have been assessed.

The ORSA Report is produced at least annually with monthly updates included in the Management Accounts. Triggers exist in case there needs to be a special update of the ORSA.

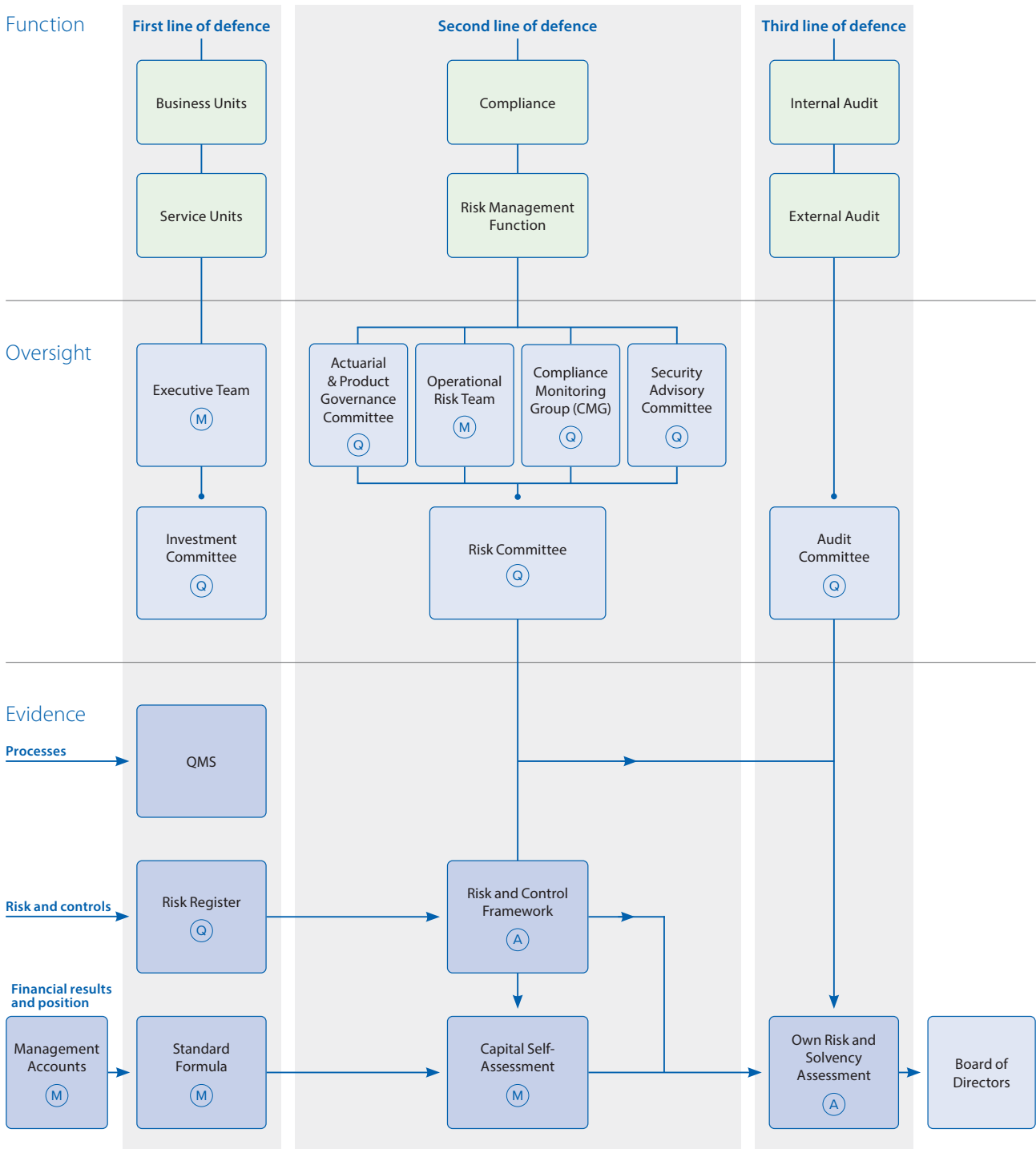
A separate ORSA Policy has been produced which covers how the ORSA should be conducted and the contents of the ORSA Report, this includes:

- The processes and procedures required by the ORSA framework;
- How the ORSA incorporates strategic and business planning processes, risk, risk tolerances, overall solvency needs, timing and frequency of ORSA framework, information on data quality, the structure of ORSA Report, description of roles and responsibilities, details of how Board owns the framework, and requirement of annual Board approval of the ORSA.

The entire ORSA process is underpinned by the Board driven principle that the capital requirements should be held in either cash or UK Government Gilts.

# 5. Internal Control System

The key components of the systems of governance as at 31 December 2022 are summarised below.



## Key

- Functions
- Committees
- Documents
- A Annual Meetings
- M Monthly Meetings
- Q Quarterly Meetings
- B Biannual meetings

## *Board of Directors*

The Board of Directors sits across the three lines of defence; they collectively have responsibility for setting organisational objectives, defining strategy and establishing the necessary governance, risk management and control frameworks to manage the risks.

The non-executive directors provide oversight of the executive management team through a structured set of management information, sub-committees, meetings and work experience. The management information includes monthly reporting on financial results, capital position and compliance with the Board agreed risk appetite statements.

## *First Line of Defence – Business Management*

The primary controls of the business reside within the key business processes. These are documented within the Quality Management System, for which WPA holds the ISO9001 accreditation.

The Group's Risk Management Framework captures the risks within each area of the business, together with the associated risk appetite, mitigating controls and monitoring procedures that provide regular oversight and review. 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 quarterly review and includes strategy and corporate issues, insurance, operations, financial (including market, credit and liquidity), pensions, group and other risks related to the achievement of the Group's business objectives.

## *Second Line of Defence – Oversight*

The implementation and management of the internal control and risk management programme 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.

## **Operational Risk Team**

The Operational Risk Team is a monthly committee with representation from all business departments. The objectives of the Operational Risk Team are to:

- Keep under review all existing and potential issues relating to corporate security and risk, primarily of an operational nature, and to ensure that remedial actions are taken in relation to any control weaknesses identified.
- Maintain the WPA Risk Register as a compendium of all relevant risks and for ensuring that it is embedded in the culture of the Company.
- Manage outstanding Audit points to their conclusion.
- Be the principal focus for documenting and quantifying the impact of the risks of WPA and its subsidiaries.
- Ensure that the Risk Register correctly lists all relevant controls for each risk, how the controls are monitored and how that monitoring is evidenced.
- Carry out a quarterly assessment of the risks across the business.
- Assess risks to identify those that require most attention.

- Monitor the non-capital impact of risk, primarily reputational damage as a result of risks crystallising, and changes in this category of risk.

The implementation and management of the internal control and risk management programme has been delegated to the Chief Risk Officer. The Risk Management Framework reviews are captured in the ORSA and reported on a regular basis to the Board.

### **Security Advisory Committee**

The Security Advisory Committee is chaired by the Chief Operating Officer and utilises external technical specialists to advise the Group on best practice cyber-security. The Security Advisory Committee reports into the Risk Committee.

### **Actuarial & Product Governance Committee**

The Actuarial & Product Governance Committee chaired by the Actuarial Function Holder is a forum representing Finance, Risk, Product Owners and Distribution. The objectives of the Committee are to:

- Keep under review all existing and potential issues relating to underwriting, pricing and technical reserving.
- Co-ordinate the calculation of the technical provisions, ensuring segregation between the calculation and independent review, along with appropriate validation.
- Provide advice and opinion on underwriting risks and policies; commercial decisions; new products; pricing; solvency position for technical provisions; stress and scenario tests for technical provisions; and reinsurance.

### **Compliance Function**

The Compliance function oversight is through two Committees, both of which are chaired by the Legal and Compliance Director.

#### **The Compliance Monitoring Group (CMG) has the following objectives:**

- To provide a forum for overall co-ordination of compliance activities at WPA through the development and maintenance of sound structured and consistent compliance processes across the Company which are appropriately monitored.
- To monitor the Company's level of exposure to financial crime, to improve methods of identifying financial crime and to develop anti-fraud and anti-money laundering initiatives both within WPA and externally.
- To provide overall review of the outcome of Compliance Monitoring activities through overview of the activities of the Distribution Monitoring Group, (DMG) by exception.
- To ensure that responsibilities for compliance activities across the Company are reflected by appropriately worded and signed job descriptions.
- To ensure that an appropriate Compliance Monitoring Plan is produced in each year and that members of the CMG lead the implementation of that plan.
- To ensure that its members are fully apprised of appropriate regulatory guidance and requirements and that such guidance and requirements are embedded in documented policies and procedures.

- To receive and actively review compliance processes by business and service units, together with a report on the minutes of the DMG.

**The Distribution Monitoring Group (DMG) has the following objectives:**

- Reports into the CMG.
- To ensure the development and maintenance of sound, consistent, structured and documented distribution monitoring activities.
- To ensure that WPA's distribution activities across direct sales, brokers and the WPA Healthcare Practice consistently deliver successful outcomes for customers.
- To ensure prompt and rigorous management action is taken to correct any regulatory shortfalls in the area of distribution.
- To actively review and constructively challenge distribution monitoring processes and reports. The DMG will particularly focus upon the effectiveness and resilience of processes and the performance of those monitored.
- To assess trends, deal with any other matters which are relevant and take appropriate management action.
- To implement prevailing legislation and regulatory requirements to ensure the fair treatment of customers, successful customer outcomes and protects WPA from the risk of reputational damage.

*Third Line of Defence – Assurance*

## 6. Internal Audit Function

The Internal Audit function was delivered through an outsourcing arrangement with PricewaterhouseCoopers LLP, (PwC) until 31 December 2022. Following a tender process for the 31 December 2024 external audit, PwC will become WPA's external auditor from 1 January 2024. In order to comply with FRC regulations in relation to independence, PwC ceased supporting our Internal Audit function from 31 December 2022. A new head of internal audit has been appointed, seconded on a part time basis from an accounting firm and will lead the Internal Audit function. The function will be supported by resource from a professional services firm and other external SMEs as required.

PwC staff occupied the roles of Internal Audit Director and the Audit Manager. Resource to complete the audit work was then sourced from a mix of PwC and WPA staff depending on the nature of the work to be undertaken.

The Internal Audit function reports to the Chairman of the Audit Committee. Regular private sessions are held with Internal Audit and the members of the Audit Committee.

**The Audit Committee has delegated authority for:**

- The appointment of the Internal Audit Function;
- Monitoring and reviewing the effectiveness of the Internal Audit Function, and reviewing the internal audit programme and reports, and to ensure that the function is independent, adequately resourced and has appropriate standing within the Company.

The internal audit service during 2022 was delivered in accordance with PwC's Internal Audit Charter. During 2023, a WPA methodology will be developed in house for delivering the internal audit service.

The internal audit plan is driven by WPA's objectives and priorities, and the risks that may prevent WPA from meeting those objectives.

Internal Audit's scope embraces the whole of WPA's internal control system including all its operations, resources and services. Internal Audit has access to all systems and activities in all departments and locations throughout WPA (including subsidiaries) with no restrictions.

PwC developed their 2022 / 2023 audit plan, which was approved at the Audit Committee in September 2022. Following the change in Internal Audit function some aspects of the plan may be revisited in 2023.

Updates from the Internal Audit function are provided to each meeting of the Audit Committee on audit work conducted since its previous meeting, key findings and agreed actions by management. Annually the Internal Audit function provide opinions on the adequacy of the risk control framework. The output from the 2021 / 2022 audit plan indicated that the adequacy and effectiveness of WPA's governance, risk and control framework has remained stable. All rated reports issued had a rating of 'Satisfactory' or 'Satisfactory with exceptions'.

### *External Audit*

The external audit of the financial statements is conducted by Deloitte LLP, Bristol UK. Deloitte report directly to the Members. Deloitte also periodically audit the SFCR; the last externally audited SFCR was for the year ended 31 December 2020.

The external audit was tendered during 2022 for the 2024 financial year end. The Company sought approval from the Financial Reporting Council to extend the tenure of the current auditors Deloitte from 10 to 11 years to ensure an effective selection process and to enable a less disruptive transition to the new insurance accounting standards IFRS 17 – Insurance contracts.

## 7. Actuarial Function

The Actuarial Function Holder for WPA is also the Chief Finance Officer.

Oversight is provided by the Risk Committee, its Chairman being a Fellow of the Institute of Actuaries in the UK.

The Actuarial Function holder provides an annual report to the Board which captures details of the Company's technical provisions, including the appropriateness of both the methodology and quantum; reviews the underwriting policy taking note of relevant variables and potential adverse selection; reviews the reinsurance policy for appropriateness against the Company's risk profile, and; considers the link between the Actuarial Function and the risk management system.

## 8. Outsourcing

Software development is performed in conjunction with a third party, although responsibility for implementation resides in-house. WPA utilise the services of an outsourced provider to host key IT platforms, although a back-up solution is retained in-house to mitigate against the loss of the outsource provider.

PwC, as mentioned above, fulfilled the senior roles within the Internal Audit Function during 2022 until 31 December 2022.

WPA World Class Service (India) Private Ltd is a wholly owned subsidiary of WPA Ltd. It is based in Bengaluru, India and performs claims and administration services.

## 9. Adequacy of Governance Framework & Internal control

The Board is satisfied that the Governance framework and system of internal control is appropriate for the Company's needs, given its size, scale and complexity.

# Article 295

## Risk Profile

### 1. Risk Categories

#### a) Underwriting risk

WPA solely underwrites short-term UK medical insurance. Within this line of business the primary risks and associated mitigants can be characterised as:

Risk	Mitigation technique
Claims frequency – more customers than expected claim on their medical insurance.	Claims frequency is the primary sensitivity the business considers when completing the ORSA. Capital is held to protect the business against claims frequency increasing to a 1 in 200 year event.
Claims severity – the treatment received by customers is on average more expensive than expected.	Medical inflation typically runs at a higher rate than retail inflation. Contracts with primary medical providers are renewed annually, which in connection with twelve-month insurance contracts enables inflationary medical costs to be factored into premium increases. Capital is held to protect the business against claims severity increasing to a 1 in 200 year event.
Adverse selection risk.	New customers are typically underwritten on either a moratorium basis or a full individual medical underwriting basis, with exclusions applied for existing medical conditions. Larger corporate customers are accepted on a medical history disregarded basis if volume of customers is sufficient to dilute any adverse selection risk. Contracts are re-priced annually which dependent upon the contract type are either claims rated for large corporate customers or pool rated for SMEs and private individuals.

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. Policy 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 experience severe medical conditions, we work with the healthcare providers to ensure that our policyholders obtain value for money.

## *Risk measurement*

Claims inventory is monitored daily by the business units. Claims payment levels are monitored by the Chief Finance Officer on a weekly basis and claim trends are reviewed at least quarterly by the Actuarial & Product Governance Committee. Large claims are escalated to the Centre of Clinical Excellence who provide bespoke case management.

Oversight is provided by the Large Claims Group which involves senior managers from all areas of the business. Governance is provided by the Medical and Clinical Governance committee.

Claims severity metrics are reported monthly as part of the risk and capital dashboard and are reviewed quarterly by the Actuarial & Product Governance Committee.

Stop-loss policies are sold to large claims rated groups. Pricing is reviewed at least annually for each individual contract based on group specific experience, with overall portfolio analysis completed annually.

Business analysts make initial suggestions of premium rates to the business units. The business units consider the suggestions with the supporting analysis and then propose premium rates, which require the approval by the Head of Actuarial Function, the Chief Underwriting Officer and the Chief Risk Officer. Loss ratios are produced monthly at a product level and reviewed by the Board as part of the Management Accounts.

## **b) Market risk**

**Equity Risk.** The Group's primary market risk exposure is through the equity portfolio. From a solvency and capital management perspective the impact of market risk is eliminated through holding low risk investments, typically cash and UK Government stock which meet both solvency and liquidity requirements. Equity risk is managed through the Investment Committee's careful selection and regular monitoring of Exchange Traded Funds (ETFs) and of collective investment funds run by 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 Investment Committee is authorised by the Board to use derivative instruments to protect the value of the portfolio.

**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 credit rating-based counterparty restrictions. There is no interest rate risk in respect of the Company's liabilities, with the exception of the pension scheme which is considered below.

**Currency risk.** The Company has exposure to worldwide currencies as a result of the Global equity portfolio held in collective investment funds. The primary exposure is to the US Dollar exchange rate by virtue of its US equity and cash holdings, coupled with the impact of Dollar rates on the global equity holdings. The Investment Committee has discretion to use derivative instruments to protect the Sterling value of the portfolio. Throughout 2022 currency hedging continued with US Dollar, Japanese Yen and Euro denominated forward currency contracts to hedge the foreign currency exposure, in light of the uncertain economic position. The cost of the Group's offshore processing centre in Bengaluru, India is also subject to Sterling to Rupee exchange rates.

### *Risk measurement*

The market risks described above are monitored against the parameters agreed by the Investment Committee.

### **c) Credit risk**

The Company's primary credit risk is through deposit institutions and in respect of the investments held in corporate bonds. 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. Deposits and corporate bond holders used are almost all of investment grade as per external third party rating agencies.

### *Risk measurement*

The credit risks described above are monitored at a counterparty level against the parameters agreed by Investment Committee.

### **d) Liquidity risk**

The Company monitors its working capital on a daily basis. Approximately two-thirds of the investment portfolio are held in liquid fixed-income asset classes such as cash, cash funds, Government stock and corporate bonds. We have a specific Liquidity Fund which has been designed to meet the liquidity requirements of operating the business. The cash instruments held within the Liquidity Fund ensure that there are always sufficient funds available to meet all current liabilities requirements. The liquidity profile of the holdings in deposits, cash funds, Government stock and corporate bonds is such that the average maturity is less than one year.

### *Risk measurement*

The liquidity position is monitored on a daily basis.

### **e) 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 the following ISO accreditations: 9001:2015 Quality Management, 27001:2013 Information Security Management, 22301:2012 Business Continuity Management and 14001:2015 Environmental Management.

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. For example, this was successfully implemented in March 2020 at the onset of the Covid-19 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.

## *Risk measurement*

Operational risk developments are monitored by the Operational Risk team (ORT) on a monthly basis. The ORT reports to the Risk Committee on a quarterly basis.

## f) Other material risks

### i. Capital Management

The Board has set out its investment risk appetite and delegated responsibility for management to the Investment Committee. The investment portfolio is managed as three key components:

1. Liquidity Fund: This is the cash required to run the insurance business. The fund fluctuates depending on operational cashflows.

*Benchmark:* risk-free rate of return.

2. Solvency Fund: This is the fund held in risk-free assets to cover our Solvency Capital Requirement (or ORSA Requirement, whichever is higher). The funds are generally held in Gilts or Treasury Bonds, although cash is also acceptable.

*Benchmark:* risk-free rate of return.

3. Investment Fund: This is the excess capital over and above that needed to run the business and ensure that we meet the solvency requirement. Over the medium-term our aim is to maintain the real value of the Investment Fund.

*Benchmark:* Consumer Price Index average over three years

The Board wishes to maintain the prudent risk appetite of holding cash and/or UK Gilts to back the in-force insurance business capital requirement and short-term cashflow requirements. However, in determining how much should be invested in these funds, the Company does not believe that the Standard Formula alone is a suitable tool. The purpose of the ORSA is to assess the adequacy of the Standard Formula for WPA's business and where necessary manage the business to a higher capital requirement than required under the SCR.

The "Investment Fund" represents the assets that are surplus to the quantifiable insurance requirements. These investments provide additional protection to the business against unknown and unquantified events. The assets are diversified across a variety of asset classes, sectors and geographies. A key principle of this fund is that no positions may be taken that could adversely impact the Solvency and Liquidity Funds, for example derivatives may only be used for the protection of the portfolio and not for speculative gain.

Ultimately, we aim to maintain the real value of the investment fund, whilst we aim to achieve a risk-free rate of return on the Liquidity and Solvency Funds which are held in low risk assets.

## *Risk measurement*

The investment risk of the portfolio is aggregated and monitored monthly by the Board through a "Value at Risk" measure. At all points during the year the investment portfolio operated within the established risk metrics.

The Group manages its concentration risk through limiting the maximum exposure to an individual counterparty. The largest single counterparty is represented by the Treasury Bills and Gilts issued by the UK Government.

The Group does not have any off-balance sheet position, or any Insurance special purpose vehicles.

## **ii. Pension Risk**

The Company's defined benefit pension scheme is subject to most financial risks described above as well as inflation and longevity risk. The Company, in collaboration with the pension scheme Trustee, has implemented a liability driven investment strategy, which is fully funded by UK Gilts. This has effectively eliminated the market risk from the scheme, as the pension cash outflows which are subject to interest rate and inflation risk are hedged by holding Gilts that match the scheme outflows.

### *Risk measurement*

The Scheme Actuary reviews the funding level formally on an annual basis. Management undertake quarterly estimates based on market movements.

## **iii. Conduct Risk**

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. WPA's core values and culture mean that we should always treat our customers as we wish to be treated. Therefore, WPA considers conduct risk as: "The risk that we do not act in our customers' best interests".

The Company's working practices are supported by the Distribution Monitoring Group (DMG) and the Compliance Monitoring Group (CMG). The DMG has been established to ensure that documented monitoring of the Company's distribution activities takes place. The CMG aims to ensure that all customers are treated fairly and properly by implementing, maintaining and documenting a consistent culture of compliance.

The mantra of Treating Customers Fairly is embedded throughout the business, best evidenced by our FOS records: nine adjudications against WPA in ten years.

### *Risk measurement*

Performance measurement criteria, including customer service levels, complaints, compliments and direct customer feedback ratings are monitored monthly in the Board's Customer Outcomes report.

## 2. Risk Exposures

The primary risks faced by the business have been consolidated from the risk register and captured in a series of risk appetite statements that define the objectives of the business and the tolerance against each of these measures. The status of each risk is reported monthly to the Board in the Risk and Capital Dashboard as part of the management accounts.

The Company only writes short-term medical insurance contracts which are twelve months in duration and have a claims tail which is approximately 75% complete within three months. The solvency needs are all predicated on this basis, such that within a year all premium rates can be reset. The solvency self-assessment uses this outlook period in determining the self-assessed capital requirement, on which the adequacy of the Standard Formula is assessed.

### Investment in accordance with the Prudent Person Principle

The relevant prudent person principles are included below. The Company does not have any linked long-term liabilities, or repackaged loans. The policyholders do not bear any investment risk. All policies are short tail.

#### Prudent Person Principle

#### Response

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(1) the firm must only invest in assets and instruments the risks of which it can properly identify, measure, monitor, manage, control and report and appropriately take into account in the assessment of its overall solvency needs in accordance with Conditions Governing Business 3.8(2)(a);	The Board delegates oversight of the investment portfolio to the Investment Committee (IC). The Board sets the mandate for the IC to operate within, which requires assets are readily identifiable, held with reputable managers and custodians (with the exception of Board approved direct holdings) and are regularly valued and reported to the Board.
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(2) All the assets of the firm must be:

(a) invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio of assets of the firm as a whole; and

(b) localised such as to ensure their availability; and

(c) in the case of a conflict of interest, the firm must, or must procure that any third party which manages its assets will ensure that the investment of assets is made in the best interest of policyholders.

The Company manages its investment portfolio in two funds. The ORSA and Liabilities Fund mandates that assets backing the capital requirement, plus current liabilities requirements are held in either cash or UK Government stock, which can readily be converted into cash.

The assets over and above the solvency requirement are known as the "Investment Fund" and permit a greater degree of investment freedom. This Fund is invested in a diversified range of asset classes, sectors and geographies.

In addition to meeting the requirements set out above, a firm must ensure that assets held to cover its technical provisions are invested in a manner appropriate to the nature and duration of the firm's insurance and reinsurance liabilities and in the best interests of all policyholders, taking into account any disclosed policy objectives.

The Board wishes to maintain the prudent risk appetite of holding cash and/or gilts to back the in-force insurance business. However, in determining how much should be invested in the Solvency and Liquidity Funds, the Company does not believe that the Standard Formula "SCR" results in an appropriate answer. Using the Standard Formula capital requirement would lead to the counter-intuitive position that as the Investment Fund delivers growth and the balance sheet strengthens, the capital required to be invested in very low risk assets would increase and vice versa. As such the Solvency and Liquidity Funds is determined by reference to the self-assessed capital requirement, which in a very low equity content investment portfolio is expected to be higher than the "SCR".

(1) The firm must not invest in a derivative or quasi-derivative unless, and to the extent that, it contributes to a reduction of risks or facilitates efficient portfolio management;

The investment mandate stipulates that "Derivative instruments may be used, but only for the protection of the portfolio against defined current or future events and not for speculative gain. WPA is averse to carrying open-ended unlimited liability obligations and as such any derivative positions should represent a nil net exposure when considered with the associated element of the portfolio which is being protected."

## Prudent Person Principle

## Response

(2) Investments and assets which are not admitted to trading on a regulated market must be kept to prudent levels;	The Investment mandate stipulates that "Assets will be diversified in such a way to avoid excessive reliance on any particular asset class, issuer or group of undertakings, geographical area and avoid excessive cumulative risk, consistent with the risk appetite of the Company. Typical asset classes within the portfolio will be Government Stock, cash deposits, corporate bonds, UK and global equity funds, exchange traded funds (ETFs), exchange traded commodities (ETCs) and hedge funds. At least 50% of the Investment Fund must be in Sterling denominated instruments. No single investment should ordinarily exceed 10% of the portfolio." In the Investment Fund, limits have been set by asset class and a limit has been set for sectors within the equity exposure.
(3) Assets must be properly diversified in such a way as to avoid:	
(a) excessive reliance on any particular asset, issuer, group of undertakings or geographical area; and	
(b) excessive accumulation of risk in the portfolio as a whole;	
(4) Investments in assets issued by the same issuer, or issuers belonging to the same group, must not expose the firm to excessive risk concentration.	The Company has no exposure arising from off-balance sheet positions or special purpose vehicles.

## 3. Risk Concentration

The Company does not have any material concentration risks with regard to insured customers. Policyholders are distributed throughout the UK and no single individual customer is material to the profitability of the Company.

Investment concentration risk is managed in accordance with the Investment Committee's statement of principles.

One area of risk concentration is our reliance on Microsoft Azure as our cloud service provider. A plan is in place for the business to move to an alternative cloud provider should the need arise.

## 4. Risk Mitigation

Risk mitigation techniques are discussed above for each risk area.

## 5. Expected Profit Included Within Future Premiums

For the purpose of the Solvency II balance sheet there is no recognition of future profits within future premiums.

## 6. Risk Sensitivity Analysis

An important part of the ORSA process looks at how the capital requirement may change in a number of different situations and test the resilience of the business in these circumstances.

### **Scenario testing**

Scenario testing is designed to estimate the financial impact of onerous potential events.

### **Sensitivity testing**

This investigates the sensitivity of individual components of the capital requirement. The purpose of this exercise is to understand how the capital requirement could change in relation to a particular variable.

### **Stress and combined testing**

A stress test is understanding what financial impact there would be on the business if a risk variable was stressed to a defined point.

The Company conducts a combined stress test annually, which considers what would happen to the business if the risk variables identified were to all happen to a 1 in 200 year event level within a twelve-month period, (with some allowance for diversification).

The interaction of stresses is also considered on a 1 in 200 year basis with more regular stresses – a 1 in 10 year event.

### **Reverse Stress testing**

The reverse stress test is designed to overcome the inherent tendency of business management to think that company failure is unlikely. The challenge is to construct scenarios in which the Company might fail, or how bad a situation would have to get for it to fail – not from the expectation that this will happen but to shed more light on the risks facing the business and how those risks might be managed.

For this purpose failure is considered to be the business no longer being a going concern.

### **Conclusion**

The Board having considered the results of the stress, sensitivity and scenario testing have concluded that the business holds appropriate solvency capital for the risks faced by the business.

# Article 296

## Valuation for Solvency Purposes

### 1. Assets and Liabilities

	Solvency II value £'000s		Valuation Base, Method and Assumptions
	C0010		
<b>Assets</b>			
Pension benefit surplus	R0050	10,538	IFRS value as accounted for under IAS 19. The key assumption is the discount rate which is mandated by IAS 19 to be a high quality corporate bond rate.
Property, plant and equipment held for own use	R0060	4,580	Cost less depreciation, after assessing for impairment, which is considered to represent economic value.
Holdings in related undertakings, including participations	R0090	1,553	Valued on adjusted equity method, based on Solvency II valuation of underlying net assets of wholly owned subsidiaries.
Government Bonds	R0140	54,945	Fair value under Solvency II which is judged to be equivalent to economic value.
Corporate Bonds	R0150	34,075	Fair value under Solvency II which is judged to be equivalent to economic value.
Collective Investments Undertakings	R0180	60,076	Fair value under IFRS which is judged to be equivalent to economic value. The valuations are provided by the Fund Managers or custodians.
Derivatives	R0190	5	Fair value under Solvency II which is judged to be equivalent to economic value.

	Solvency II value £'000s		Valuation Base, Method and Assumptions
	C0010		
<b>Assets</b>			
Deposits other than cash equivalents	R0200	17,575	Amortised cost, under IFRS, which is considered equivalent to economic value.
Insurance and intermediaries receivables	R0360	881	Fair value, under IFRS, which is considered equivalent to economic value.
Cash and cash equivalents	R0410	2,414	Amortised cost, under IFRS, which is considered equivalent to economic value.
Any other assets, not elsewhere shown	R0420	5,551	Fair value, under IFRS, which is considered equivalent to economic value.
<b>Total assets</b>	<b>R0500</b>	<b>192,193</b>	
<b>Liabilities</b>			
Technical provisions – non-life	R0510	15,135	Refer to Section 2 on the following page.
Derivatives	R0790	146	Fair value under IFRS, which is considered to be equivalent to economic value.
Insurance & intermediaries payables	R0820	5,974	Amortised cost, under the effective interest rate method which is considered to materially represent economic value.
Payables (trade, not insurance)	R0840	8,126	Amortised cost, under the effective interest rate method, which is considered to materially represent economic value.
Any other liabilities	R0880	405	IFRS value.
<b>Total liabilities</b>	<b>R0900</b>	<b>29,786</b>	

## 2. Technical Provisions

All technical provisions relate to UK Private Medical Insurance.

We use a chain ladder methodology, which is weighted towards more recent development patterns given the significant changes that had been observed in the payment data in recent months.

The assumptions made in the calculation of technical provisions in the prior year have effectively resolved as the claims run off for the prior year has concluded.

### Technical Provision Breakdown £'000s

#### Valuation, method and assumptions and level of uncertainty

Best estimate £13,542	Calculation comprises:- <ul style="list-style-type: none"><li>– Future claims and administrative expenses less debtors due after the valuation date, discounted at the SONIA prescribed risk free-rate.</li><li>– Claims reserve from IFRS balance sheet, excluding the IFRS risk margin, discounted at the SONIA prescribed risk free-rate.</li></ul>
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The value is taken from the IFRS balance sheet and the discount effect is very small, due to the short-tail nature of health insurance. There is 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.

The development patterns for health insurance claims are generally very predictable and run-off variations are consequently normally low, although the patterns post-pandemic have, on the whole, accelerated. A review of recent experience shows that the pattern for December 2021 and March 2022 was different to other months. During the early part of 2023 there has been a degree of uncertainty and delays in processing claims payments due to an invoicing lag by two key hospital groups, this will have impacted on payment and therefore development patterns. Further analysis will be undertaken once the year has progressed sufficiently to ensure all held claims from January have been processed, but initial observations are that, with limited historical experience, we have not factored this potential further change into our reserving estimate, but highlight the potential for a material positive run-off deviation.

Events not in data: The Company is conscious that there are risks emerging within the medical insurance industry that are not yet evident in the data, but pertinent to current in-force business and will become relevant.

Whilst the Company actively considers the emerging risks and develops strategies to mitigate against the impact, the exposure is lessened compared to other insurance types due to the short-tailed nature of health insurance. For example:

- Virtually all insurance contracts are twelve months in duration.
- WPA indemnifies customers against medical treatment undertaken, rather than conditions that have developed, during the insurance contract period.
- The claims reserve represents costs to be settled for treatment that took place during the accident year and thus is approximately 75% complete three months after the end of the financial year. This is far less volatile and subjective than in longer tail insurers.

As such, no allowance has been made for events not in data.

Risk margin Risk margin is calculated on the bases of the Operational Risk and Health Risk module of the Standard Formula SCR, at the EIOPA prescribed cost of capital and discounted at the EIOPA prescribed risk-free rate.

£1,593

Base data to generate the Operational Risk component is from the IFRS financial statements. Pandemic and catastrophe risk within the Health Risk are estimated using actual lives on cover, actual hospitalisation costs and actual average treatment per claim, based on historic claims experience. The discount rate effect is very small, due to the short-tail nature of health insurance.

**£15,135 Total Technical Provisions**

### IFRS to Solvency II Balance Sheet

	IFRS Balance Sheet £'000s	Solvency II Balance Sheet £'000s	Explanation of difference
Intangible Assets	569	–	The intangible asset held on the IFRS balance sheet is deemed not to have an active market with quoted prices for the same or similar assets and so is not included on the Solvency II balance sheet.
Property, plant and equipment held for own use	4,580	4,580	
Net pension surplus	10,538	10,538	
Investments (other than assets held for index-linked and unit-linked contracts)	171,614	168,229	Explanations of the reasons for the valuation differences at an investment level are shown below.
Holdings in related undertakings, including participations	934	1,553	Subsidiaries valued in Solvency II using adjusted equity method, based on Solvency II valuation of underlying net assets. On the IFRS balance sheet, holdings in related undertakings are stated at cost or at deemed cost, less allowance for impairment.
Bonds	93,024	89,020	
Government Bonds	57,500	54,945	Bonds are shown on the IFRS balance sheet at amortised cost and on the Solvency II balance sheet at fair value.
Corporate Bonds	35,524	34,075	Bonds are shown on the IFRS balance sheet at amortised cost and on the Solvency II balance sheet at fair value.

	IFRS Balance Sheet £'000s	Solvency II Balance Sheet £'000s	Explanation of difference
Collective Investments Undertakings	60,076	60,076	
Derivatives	5	5	
Deposits other than cash equivalents	17,575	17,575	
Insurance and intermediaries receivables	881	881	
Cash and cash equivalents	2,414	2,414	
Deferred tax asset	2,700	–	A conservative decision was taken to not recognise the deferred tax asset in the Solvency II balance sheet.
Any other assets, not shown elsewhere	6,827	5,551	Prepayments are not recognised on the Solvency II balance sheet as they do not result in future cash flows and therefore the economic value is nil.
Debtors not yet due	52,933	–	Debtors not yet due are factored into the technical provisions on the Solvency II balance sheet and are therefore accounted for on a different basis.
Deferred acquisition costs	7,699	–	Deferred acquisition costs are not recognised on the Solvency II balance sheet as they do not result in future cash inflows.
<b>Total assets</b>	<b>260,755</b>	<b>192,193</b>	
Reserves	173,416	–	Reserves are not directly recognised on the Solvency II balance sheet. The comparable figure is excess of assets over liabilities reported below.
Best estimate technical provisions	72,688	13,542	The IFRS unearned premium reserve is removed from the Solvency II balance sheet. Similarly, debtors not yet due are replaced in the Solvency II balance sheet with the best estimate technical provisions as described in Section 2 above. The claims reserve is carried through to the Solvency II balance sheet, but is marginally adjusted as a result of the discount effect from the Solvency II best estimate calculation.

	IFRS Balance Sheet £'000s	Solvency II Balance Sheet £'000s	Explanation of difference
Risk margin	–	1,593	Additional calculation for the Solvency II balance sheet as discussed in Article 296 Section 2 above.
Best estimate technical provisions	72,688	13,542	The IFRS unearned premium reserve is removed from the Solvency II balance sheet. Similarly, debtors not yet due are replaced in the Solvency II balance sheet with the best estimate technical provisions as described in section 2 above. The claims reserve is carried through to the Solvency II balance sheet, but is marginally adjusted as a result of the discount effect from the Solvency II best estimate calculation.
Risk margin	–	1,593	Additional calculation for the Solvency II balance sheet as discussed in Article 296 section 2 above.
Derivatives	146	146	
Insurance & intermediaries payables	5,974	5,974	
Payables (trade, not insurance)	8,126	8,126	
Any other liabilities	405	405	
<b>Total equity and liabilities</b>	<b>260,755</b>	<b>29,786</b>	
<b>Excess of assets over liabilities</b>	<b>–</b>	<b>162,407</b>	Comparable to Reserves on an IFRS basis.

### *Transitional Measures*

Given the demonstrable solvency of the business WPA has elected not to adopt the following:

- Transitional risk-free interest rates
- Transitional deduction on technical provision

Due to the nature of WPA's business the matching adjustment and volatility adjustment are not applicable.

## 3. Reinsurance

The reinsurance coverage during the year was limited to two facultative policies, which have been classified in our accounts as non-IFRS 4 insurance contracts as a result of the interdependence between the primary and reinsurance contracts. Consequently the contracts have not been treated as reinsurance in the SFCR.

# Article 297

## Capital Management

### 1. Own Funds

WPA continues to demonstrate its capital strength and has sought to immunise policyholders from any market risk. This strategy prevails throughout the business planning period which is considered to be an outlook period of three years from start of each financial year.

The Company has at all points throughout the year held capital over and above that required under both the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR). The available capital is exclusively unrestricted.

The capital strategy has driven the Board mandated investment strategy which requires that either Gilts and/or cash are held to back the current liabilities and the self-generated estimate of the capital required to back the in-force business. These assets are known as the Solvency and Liquidity Funds.

The Company is in the robust position of having assets that are in excess of the Solvency and Liquidity Funds as a result of asset growth over a century of WPA's existence. The assets over and above the solvency requirement are known as the Investment Fund and permit a greater degree of investment freedom. This Fund is invested in a diversified range of asset classes, sectors and geographies.

The free IFRS reserves of the Company, which represent the Own Funds on the Solvency II balance sheet are all unrestricted tier 1. There are no material differences between the IFRS free reserves of the Company and the Own Funds for the purpose of the Solvency II balance sheet. The IFRS free reserves of the Company are classified within the Reconciliation Reserve in the analysis of Own Funds.

	<b>unaudited</b>	
	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Solvency II Own Funds	162,407	183,642
IFRS Reserves	173,416	189,987

## 2. Capital Requirement

The Company's solvency capital requirement is determined under the "Standard Formula". This yields a capital requirement of £40.4m, (31 December 2020: £49.8m).

The Company has established monthly procedures that ensure there has been continuous compliance with Solvency Capital and Minimum Capital requirements throughout the year.

Summary capital position	unaudited	2021
	2022	2021
	£'000s	£'000s
Market Risk	21,119	35,495
Counterparty Risk	2,623	2,126
Health Risk	23,831	21,080
Operational Risk	3,903	3,522
Diversification	(11,085)	(12,408)
Solvency Capital Requirement (SCR)	<b>40,391</b>	<b>49,815</b>
Minimum Capital Requirement (MCR)	10,098	12,454
Total eligible unrestricted own funds to meet SCR and MCR	162,407	183,642
SCR coverage by total eligible own funds	402%	369%

### *Changes in the period*

The SCR decreased from £49.8m to £40.4m between December 2021 and December 2022. The main reasons for the net increase in the Standard Formula during the year were:

#### **Market risk: £14.4m increase**

- Decrease in equity holdings in the investment portfolio and in the prescribed equity capital charge issued by the Bank of England, resulting in a decrease in equity risk of £14.6m.
- Decrease in currency risk of £2.1m, due to a reduction in net US Dollar exposure, with the value of US Dollar holdings increasing in the year in comparison to a stable US Dollar hedge position, which provides an economic hedge against the value of some (mostly Asian) currencies.
- Increased value of holdings in gold bullion through an ETF, increasing our concentration risk by £0.8m.
- Increase in spread risk of £0.1m.
- A £0.1m decrease in shock as a result of a reduction in the value of property holdings.
- An increase of £3.3m in the interest shock due to increased risk-free rates.
- An increase in the benefit of market risk diversification (reduction to market risk) of £1.8m, driven by the change in assets detailed above.

#### **Counterparty risk: £0.5m increase**

- Higher shock as a result of an increase in the amount of cash held with an unrated counterparty.

#### **Health risk: £2.8m increase**

- An increase in planned earned premium in 2022.

#### **Diversification risk: £1.3m decrease (an increase to the SCR)**

- A decrease in the benefit of the overall SCR diversification risk due to the decrease in market risk.

#### **Operational risk: £0.4m increase**

- An increase in earned premium in 2022 compared to the previous year.

The MCR is calculated as the higher of 25% of the SCR or the 'Absolute Floor of the MCR'. In WPA's case the higher is 25% of the SCR and therefore the MCR has decreased in line with the SCR, falling from £12.5m as at 31 December 2021 to £10.1m at 31 December 2022.

### 3. Use of the duration-based equity risk sub module

WPA does not use the duration-based equity risk sub module.

### 4. Differences between the Standard Formula and the Internal Model

This is not applicable as the Company does not use a PRA approved Internal Model.

### 5. Non Compliance with SCR or MCR

Not applicable as the Company has been in continuous compliance with the SCR and MCR.

### 6. Other information

The Company does not use any Undertaking Specific Parameters.

The inputs used to calculate the MCR are taken from the Company's audited financial statements.

No simplifications have been used for any of the risk modules or sub-modules of the standard formula.

# Appendices

## General Information

Undertaking name	WESTERN PROVIDENT ASSOCIATION LIMITED
Undertaking identification code	LEI/2138002EZM8HP5FQ6J93
Type of undertaking	Non-Life undertakings
Country of authorisation	UNITED KINGDOM
Language of reporting	English
Reporting reference date	31/12/2022
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

## Template Code

## Template Name

S.02.01.01	Solvency II balance sheet
S.05.01.02	Premiums, claims and expenses. S.05.02.01 premiums, claims and expenses by country not reported as all business in the UK and so the data is the same as in S.05.01.02.
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own funds
S.25.01.21	Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

## S.02.01.01 Balance sheet (unaudited)

		Solvency II value £'000s
		C0010
<b>Assets</b>		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	10,538
Property, plant & equipment held for own use	R0060	4,580
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	168,229
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	1,553
Equities	R0100	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	89,020
Government Bonds	R0140	54,945
Corporate Bonds	R0150	34,075
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	60,076
Derivatives	R0190	5
Deposits other than cash equivalents	R0200	17,575
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	R0270	
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	881
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	2,414
Any other assets, not elsewhere shown	R0420	5,551
<b>Total assets</b>	<b>R0500</b>	<b>192,193</b>

## S.02.01.01 Balance sheet (unaudited)

		Solvency II value £'000s
		C0010
<b>Liabilities</b>		
Technical provisions – non-life	R0510	15,135
Technical provisions – non-life (excluding health)	R0520	
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	R0560	15,135
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	13,542
Risk margin	R0590	1,593
Technical provisions – life (excluding index-linked and unit-linked)	R0600	
Technical provisions – health (similar to life)	R0610	
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	
Technical provisions calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	0
Derivatives	R0790	146
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	5,974
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	8,126
Subordinated liabilities	R0850	
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	
Any other liabilities, not elsewhere shown	R0880	405
Total liabilities	R0900	29,786
Excess of assets over liabilities	R1000	162,407

S.05.01.02 Premiums, claims and expenses by line of business (unaudited)

Non-life

		<b>Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)</b>
		<b>Medical expense insurance £'000s</b>
		C0010
<b>Premiums written</b>		
Gross – Direct Business	R0110	138,022
Gross – Proportional reinsurance accepted	R0120	
Gross – Non-proportional reinsurance accepted	R0130	
Reinsurers' share	R0140	
Net	R0200	138,022
<b>Premiums earned</b>		
Gross – Direct Business	R0210	130,894
Gross – Proportional reinsurance accepted	R0220	
Gross – Non-proportional reinsurance accepted	R0230	
Reinsurers' share	R0240	
Net	R0300	130,894
<b>Claims incurred</b>		
Gross – Direct Business	R0310	100,060
Gross – Proportional reinsurance accepted	R0320	
Gross – Non-proportional reinsurance accepted	R0330	
Reinsurers' share	R0340	
Net	R0400	100,060
<b>Changes in other technical provisions</b>		
Gross – Direct Business	R0410	535
Gross – Proportional reinsurance accepted	R0420	
Gross – Non- proportional reinsurance accepted	R0430	
Reinsurers' share	R0440	
Net	R0500	535
Expenses incurred	R0550	43,633

S.05.01.02 Premiums, claims and expenses by line of business (unaudited)

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)
		Medical expense insurance £'000s
		C0010
<b>Administrative expenses</b>		
Gross – Direct Business	R0610	12,685
Gross – Proportional reinsurance accepted	R0620	
Gross – Non-proportional reinsurance accepted	R0630	
Reinsurers' share	R0640	
Net	R0700	12,685
<b>Investment management expenses</b>		
Gross – Direct Business	R0710	33
Gross – Proportional reinsurance accepted	R0720	
Gross – Non-proportional reinsurance accepted	R0730	
Reinsurers' share	R0740	
Net	R0800	33
<b>Claims management expenses</b>		
Gross – Direct Business	R0810	9,359
Gross – Proportional reinsurance accepted	R0820	
Gross – Non-proportional reinsurance accepted	R0830	
Reinsurers' share	R0840	
Net	R0900	9,359
<b>Acquisition expenses</b>		
Gross – Direct Business	R0910	16,393
Gross – Proportional reinsurance accepted	R0920	
Gross – Non-proportional reinsurance accepted	R0930	
Reinsurers' share	R0940	
Net	R1000	16,393
<b>Overhead expenses</b>		
Gross – Direct Business	R1010	5,161
Gross – Proportional reinsurance accepted	R1020	
Gross – Non-proportional reinsurance accepted	R1030	
Reinsurers' share	R1040	
Net	R1100	5,161
Other expenses	R1200	
Total expenses	R1300	43,633

## S.17.01.02 Non-Life Technical Provisions (unaudited)

		Direct business and accepted proportional reinsurance
		Medical expense insurance £'000s
		C0020
Technical provisions calculated as a whole	R0010	
Direct business	R0020	
Accepted proportional reinsurance business	R0030	
Accepted non-proportional reinsurance	R0040	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	
<b>Technical provisions calculated as a sum of BE and RM – Best Estimate</b>		
<b>Premium Provisions</b>		
Gross – Total	R0060	2,865
Gross – direct business	R0070	2,865
Gross – accepted proportional reinsurance business	R0080	
Gross – accepted non-proportional reinsurance business	R0090	
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	R0100	
Recoverables from reinsurance before adjustment for expected losses	R0110	
Recoverables from SPV before adjustment for expected losses	R0120	
Recoverables from Finite Reinsurance before adjustment for expected losses	R0130	
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	
Net Best Estimate of Premium Provisions	R0150	2,865
<b>Claims provisions</b>		
Gross – Total	R0160	10,677
Gross – direct business	R0170	10,677
Gross – accepted proportional reinsurance business	R0180	
Gross – accepted non-proportional reinsurance business	R0190	
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	R0200	
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	R0210	
Recoverables from SPV before adjustment for expected losses	R0220	
Recoverables from Finite Reinsurance before adjustment for expected losses	R0230	
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	
Net Best Estimate of Claims Provisions	R0250	10,677
Total Best estimate – gross	R0260	13,542
Total Best estimate – net	R0270	13,542
Risk margin	R0280	1,593

S.17.01.02 Non-Life Technical Provisions (unaudited)

		<b>Direct business and accepted proportional reinsurance</b>
		<b>Medical expense insurance £'000s</b>
		C0020
<b>Amount of the transitional on Technical Provisions</b>		
TP as a whole	R0290	
Best estimate	R0300	
Risk margin	R0310	
<b>Technical provisions – total</b>		
Technical provisions – total	R0320	15,135
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	15,135

## S.19.01.21

## Non-life insurance claims Total non-life business (unaudited)

Z0020 Accident Year

**Gross Claims Paid (non-cumulative) – Development year (absolute amount – £'000s)**

		0	1	2	3	4	5 & +	In current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0170	C0180
Prior	R0100	0	0	0	0	0	0	0	0
N-14	R0110	0	0	0	0	0	0	0	0
N-13	R0120	0	0	0	0	0	0	0	0
N-12	R0130	0	0	0	0	0	0	0	0
N-11	R0140	0	0	0	0	0	0	0	0
N-10	R0150	72,493	6,049	0	0	0	0	0	78,542
N-9	R0160	70,203	6,929	0	0	0	0	0	77,132
N-8	R0170	71,458	8,895	0	0	0	0	0	80,353
N-7	R0180	72,031	7,989	0	0	0	0	0	80,020
N-6	R0190	69,420	9,691	0	0	0	0	0	79,111
N-5	R0200	71,112	9,504	0	0	0	0	0	80,616
N-4	R0210	69,777	9,732	0	0	0		0	79,509
N-3	R0220	73,676	11,007	0	0			0	84,683
N-2	R0230	57,704	10,585	0				0	68,289
N-1	R0240	80,944	11,980					11,980	92,924
N	R0250	3,571						3,571	3,571
Total								15,551	804,749

**Gross undiscounted best estimate claims provisions – Development year (absolute amount – £'000s)**

		0	1	2	3	4	5 & +	In current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0170	C0180
Prior	R0100							0	0
N-14	R0110	0	0	0	0	0	0	0	0
N-13	R0120	0	0	0	0	0	0	0	0
N-12	R0130	0	0	0	0	0	0	0	0
N-11	R0140	0	0	0	0	0	0	0	0
N-10	R0150	6,049	0	0	0	0	0	0	6,049
N-9	R0160	6,929	0	0	0	0	0	0	6,929
N-8	R0170	8,895	0	0	0	0	0	0	8,895
N-7	R0180	7,989	0	0	0	0	0	0	7,989
N-6	R0190	9,691	0	0	0	0	0	0	9,691
N-5	R0200	9,504	0	0	0	0	0	0	9,504
N-4	R0210	9,732	0	0	0	0		0	9,732
N-3	R0220	11,007	0	0	0			0	11,007
N-2	R0230	10,585	0	0				0	10,585
N-1	R0240	11,980	0					0	11,980
N	R0250	11,445						11,445	11,445
Total								11,445	103,805

## S.23.01.01 Own funds (unaudited)

		Total £'000s	Tier 1 – unrestricted £'000s
		C0010	C0020
<b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35</b>			
Ordinary share capital (gross of own shares)	R0010		
Share premium account related to ordinary share capital	R0030		
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040		
Subordinated mutual member accounts	R0050		
Surplus funds	R0070		
Preference shares	R0090		
Share premium account related to preference shares	R0110		
Reconciliation reserve	R0130	162,407	162,407
Subordinated liabilities	R0140		
An amount equal to the value of net deferred tax assets	R0160		
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180		
<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>			
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220		
<b>Deductions</b>			
Deductions for participations in financial and credit institutions	R0230		
Total basic own funds after deductions	R0290	162,407	162,407
<b>Ancillary own funds</b>			
Unpaid and uncalled ordinary share capital callable on demand	R0300		
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310		
Unpaid and uncalled preference shares callable on demand	R0320		
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330		
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340		
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350		
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360		
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370		
Other ancillary own funds	R0390		
Total ancillary own funds	R0400		
<b>Available and eligible own funds</b>			
Total available own funds to meet the SCR	R0500	162,407	162,407
Total available own funds to meet the MCR	R0510	162,407	162,407
Total eligible own funds to meet the SCR	R0540	162,407	162,407
Total eligible own funds to meet the MCR	R0550	162,407	162,407
SCR	R0580	40,391	
MCR	R0600	10,098	
Ratio of Eligible own funds to SCR	R0620	402%	
Ratio of Eligible own funds to MCR	R0640	1608%	

### S.23.01.01 Reconciliation reserve (unaudited)

		<b>Total £'000s</b>
		C0060
<b>Reconciliation reserve</b>		
Excess of assets over liabilities	R0700	162,407
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	162,407
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	

## S.25.01.21 Basic Solvency Capital Requirement (unaudited)

		Net solvency capital requirement £'000s	Gross solvency capital requirement £'000s	Allocation from adjustments due to RFF and Matching adjustments portfolios £'000s
		C0030	C0040	C0050
Market risk	R0010	21,119	21,119	
Counterparty default risk	R0020	2,623	2,623	
Life underwriting risk	R0030			
Health underwriting risk	R0040	23,831	23,831	
Non-life underwriting risk	R0050			
Diversification	R0060	(11,085)	(11,085)	
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	36,488	36,488	

## S.25.01.21 Calculation of Solvency Capital Requirement (unaudited)

		Value £'000s
		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Operational risk	R0130	3,903
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	40,391
Capital add-on already set	R0210	
Solvency capital requirement	R0220	40,391
<b>Other information on SCR</b>		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	R0450	
Net future discretionary benefits	R0460	

S.28.01.01 Linear formula component for non-life insurance and reinsurance obligations (unaudited)

		<b>MCR components £'000s</b>
		C0010
MCRNL Result	R0010	7,119

S.28.01.01 Background information (unaudited)

		<b>Background information</b>	
		<b>Net (of reinsurance/SPV) best estimate and TP calculated as a whole £'000s</b>	<b>Net (of reinsurance) written premiums in the last 12 months £'000s</b>
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	13,542	137,927
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

S.28.01.01 Linear formula component for life insurance and reinsurance obligations (unaudited)

		<b>£'000s</b>
		C0040
MCRL Result	R0200	

### S.28.01.01 Total capital at risk for all life (re)insurance obligations (unaudited)

		<b>Net (of reinsurance/ SPV) best estimate and TP calculated as a whole £'000s</b>	<b>Net (of reinsurance/ SPV) total capital at risk £'000s</b>
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210		
Obligations with profit participation – future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
<b>Total capital at risk for all life (re)insurance obligations</b>	<b>R0250</b>		

### S.28.01.01 Overall MCR calculation (unaudited)

		<b>£'000s</b>
		C0070
Linear MCR	R0300	7,119
SCR	R0310	40,391
MCR cap	R0320	18,176
MCR floor	R0330	10,098
Combined MCR	R0340	10,098
Absolute floor of the MCR	R0350	2,395
Minimum Capital Requirement	R0400	10,098



**Western Provident Association Limited**

Rivergate House | Blackbrook Park | Taunton | Somerset | TA1 2PE  
Telephone: 01823 625000 Facsimile: 01823 623050 Website: [wpa.org.uk](http://wpa.org.uk)  
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