

# Motors Insurance Company Limited

Solvency and Financial Condition Report  
*For the year ended 31 December 2022*



Motors Insurance Company  
An AmTrust Financial Company



## Contents

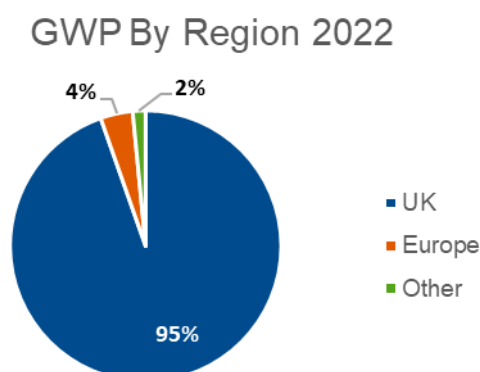
Summary.....	3
Business model.....	3
Systems of Governance.....	5
Risk Profile .....	6
Other risks.....	6
Valuation for solvency purposes .....	6
Capital Management .....	9
Directors' statement in respect of the SFCR.....	10
External Audit Report.....	11
<b>A. Business and Performance.....</b>	<b>13</b>
A.1 Business.....	13
A.2 Underwriting Performance .....	16
A.3 Investment Performance .....	18
A.4 Performance of other activities .....	19
A.5 Any other information .....	19
<b>B. System of Governance .....</b>	<b>21</b>
B.1 General information on the system of governance .....	21
B.2 Fit and Proper Requirements.....	27
B.3 Risk management system including the own risk solvency assessment.....	28
B.4 Internal control system .....	33
B.5 Internal Audit function .....	33
B.6 Actuarial function .....	33
B.7 Outsourcing.....	34
B.8 Any other information .....	35
<b>C. Risk Profile.....</b>	<b>37</b>
C.1 Underwriting risk .....	37
C.2 Market risk.....	40
C.3 Credit risk .....	42
C.4 Liquidity risk.....	43
C.5 Operational risk .....	44
C.6 Other material risks .....	45
C.7 Any other information .....	48
<b>D. Valuation for Solvency Purposes .....</b>	<b>51</b>
D.1 Assets.....	51
D.2 Technical Provisions.....	53
D.3 Other liabilities.....	57
D.4 Alternative methods for valuation.....	58
D.5 Any other information .....	58
<b>E. Capital Management .....</b>	<b>60</b>
E.1 Own funds .....	60
E.2 Solvency capital requirement and minimum capital requirement.....	62
E.3 Use of duration-based equity risk sub-module in the calculation of Solvency Capital Requirement .....	63
E.4 Difference between the standard formula and the internal model used .....	63
E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement.....	63
E.6 Any other information .....	63
<b>F. QRTs.....</b>	<b>65</b>



## Summary

### Business model

Motors Insurance Company Limited (MICL or the Company) is a UK registered insurance company, which predominantly underwrites or reinsures multiple lines of business across the UK and Europe. Its primary markets are shown in the chart below which shows Gross Written Premium (GWP) by region:



MICL's primary underwriting focus is in the motor add-on insurance market, offering the following types of insurance:

- Mechanical Breakdown Insurance (Miscellaneous Financial Loss)
- Guaranteed Asset Protection (Miscellaneous Financial Loss)
- Alloy Wheel Repair, Cosmetic Repair and Tyre Insurances (Motor Other)
- Wholesale Floor Plan Insurance<sup>1</sup> (Motor Other); and
- Roadside Assistance (Assistance).

MICL is a subsidiary of the AmTrust Financial Services Inc. (AFSI) Group. AFSI is a multinational property and casualty insurer.

### Solvency II

As a regulated insurance company, MICL is subject to the regulatory rules and principles adopted by the UK and the European Union, which came into effect on 1 January 2016. Solvency II is a regulatory regime which is designed to set an appropriate level of capital that reflects the specific risk profile of insurance companies within the regime.

The biggest source of risk in MICL's business model relates to the underwriting activity undertaken by the business. Regulatory capital is designed to act as buffer, which is to be held within the Company's assets and liabilities and provides a safety mechanism to protect policyholders should MICL incorrectly estimate its future liabilities, or if unforeseen stress events occur which impact the markets in which MICL operates.

This report is a Solvency II requirement and is designed to give MICL's external stakeholders (including policyholders) an insight into the solvency and financial condition of the Company. This is the seventh SFCR completed by MICL, covering the period 1 January 2022 to 31 December 2022, with comparisons to the 2021 period. It is a document covering MICL's business only and therefore classed as a solo submission.

---

<sup>1</sup> With effect from 1<sup>st</sup> March 2023, MICL no longer underwrites Wholesale Floor Plan insurance.



## Business performance

2022	Motor (other classes)	Assistance	Miscellaneous financial loss	Total
	£'000	£'000	£'000	£,000
GWP – Direct	14,701	1,207	130,314	146,222
GWP – Proportional reinsurance	-	-	8,024	8,024
Reinsurers' share	(6,790)	(597)	(67,123)	(74,510)
Net premiums written	<b>7,911</b>	<b>610</b>	<b>71,215</b>	<b>79,736</b>
Gross premiums earned – Direct	12,896	746	119,095	132,738
Gross premiums earned – Reinsurance	-	-	13,123	13,123
Reinsurers' share	(4,730)	(314)	(51,472)	(56,516)
Net premiums earned	<b>8,166</b>	<b>432</b>	<b>80,746</b>	<b>89,345</b>
Gross claims incurred – Direct	6,917	385	75,022	82,324
Gross claims incurred – Reinsurance	(4)	-	4,173	4,169
Reinsurers' share	(3,200)	(188)	(42,636)	(46,024)
Net claims incurred	<b>3,713</b>	<b>197</b>	<b>36,559</b>	<b>40,469</b>
Expenses incurred	<b>4,582</b>	<b>59</b>	<b>33,947</b>	<b>38,589</b>
Other Expenses	-	-	-	-
<b>Net technical result</b>	<b>(129)</b>	<b>176</b>	<b>10,239</b>	<b>10,286</b>

Following the COVID impacted years in 2020 and 2021, 2022 GWP increased across all key products, ending 13% higher year on year, in spite of used car transactions in the Company's principal market, the UK, being 8.5% down in the year (*Source: SMMT*).

Mechanical Breakdown Insurance (MBI) accounted for 81% (2021: 82%) of total GWP and, whilst claims frequencies returned to pre COVID levels and claims severities increased due to global inflation, the MBI portfolio continued to be the largest contributor to the underwriting performance within the Company.

As represented previously, the UK market remains the largest market and accounts for 93% (2021: 84%) of the Mechanical Breakdown Insurance GWP.

Although mobility levels have to some extent been restored, claims frequencies and severities on Guaranteed Asset Protection (GAP) insurance have remained lower than anticipated due to fewer road traffic accidents and high residual vehicle values.

Alloy, Cosmetic and Tyre (ACT) insurance underwriting profits have been inflation impacted but are still performing in line with target overall.

MICL seeks to adopt strong risk appetites and underwriting disciplines in the lines of business that it participates in and has a core team of experienced and professional underwriters that have a good track record of achieving target loss ratios over many years.

The primary objectives for the investment portfolio are capital preservation and maintenance of liquidity. Similar to 2021, 2022 experienced continued volatility, being adversely impacted by macroeconomic factors, producing a negative return as market expectations of interest rates increased. However, performance did exceed its benchmarks as a result of the portfolio's high credit quality and short duration.



In addition, the size of the portfolio was reduced during the year as a result of the payment of an interim dividend of £6.0m in June 2022. A further dividend of £6.0m was declared in January 2023 and this has been reflected in the 2022 year end solvency position.

MICL maintained its A- AM Best credit rating in 2022.

### Material changes to MICL's business model

In July 2022, MICL (with other companies in the AmTrust Group), made the strategic decision to renew its Quota Share Reinsurance arrangement under which 50% of all written premiums (net of other reinsurances and similar deductions) and claims are ceded to a highly rated reinsurer. Whilst MICL's capital position has remained comfortably within the Board defined risk appetite since the implementation of Solvency II, the quota share provides additional capital coverage to support future growth. The arrangement has contributed to net written premiums reducing and Solvency II capital coverage improving across the reporting period. Additionally, from July 2022 MICL purchased additional reinsurance for its GAP portfolio of business with a highly rated reinsurer.

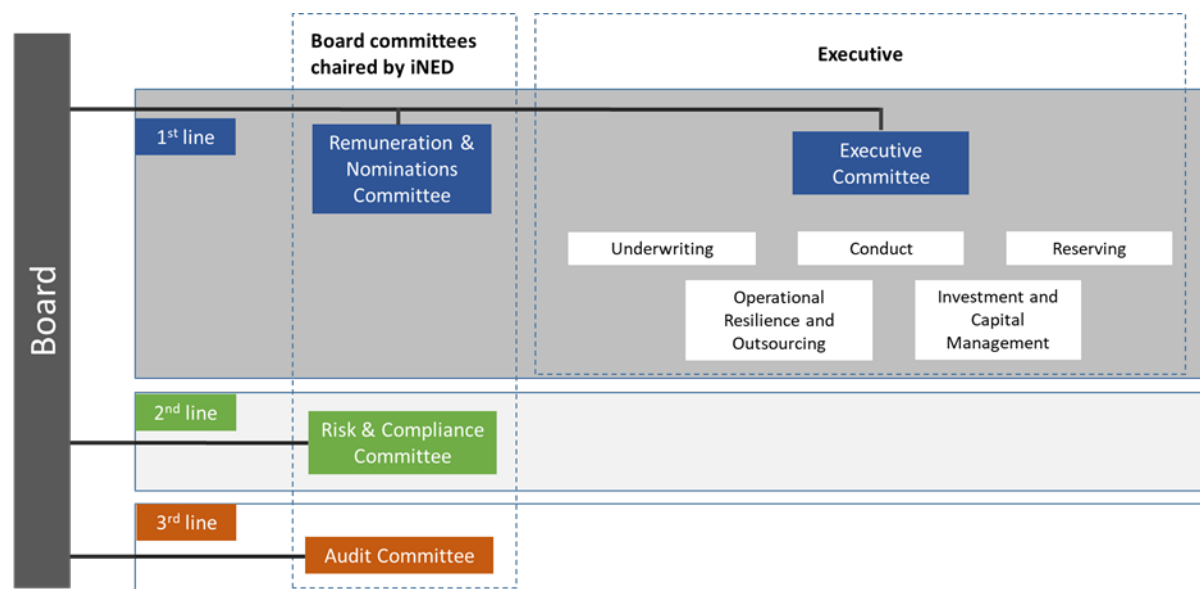
With effect from 1<sup>st</sup> March 2023, the Company no longer underwrites Wholesale Floor Plan insurance.

### Systems of Governance

MICL has developed a system of corporate governance to ensure that there is a clear process of decision making combined with accountability and transparency, which allows for the sound and prudent management of the business.

The Board has overall responsibility for setting and achieving MICL's strategy and putting in place appropriate systems and infrastructures to manage the associated risk in its business model. In line with established best practices within the insurance market, MICL follows the "Three Lines of Defence" model of risk management and internal control.

The Company's key committees are depicted below, with the Risk and Compliance Committee sitting within the 2<sup>nd</sup> line of defence, the Audit Committee in the 3<sup>rd</sup> line of defence, and all other committees within the 1<sup>st</sup> line of defence.



The Board of Directors, along with the Risk and Compliance Committee, provide oversight and control in relation to the evaluation of risk within the business. The membership of the Board and sub-committees comprises Executive Directors, Independent Non-Executive Directors and Parent Company representatives. All committees have terms of reference which define their roles and responsibilities.





## Risk Profile

The Company calculates its required capital from both a regulatory and internal economic capital perspective by reference to certain risk categories that it is exposed to within its business model. The main risks that MICL is exposed to are:

- Underwriting risk – 75.4% (2021: 77.4%) of the undiversified SCR
- Market risk – 19.0% (2021: 18.2%) of the undiversified SCR
- Credit risk – 5.5% (2021: 4.4%) of the undiversified SCR

### Underwriting Risk

MICL's largest risk exposure is in respect of underwriting risk, which is broken down into two main components: premium risk and reserve risk. Premium risk is the risk that premiums are insufficient to cover the value of claims made; and reserve risk is the risk that on-going claims are settled at a higher value than previously expected. Most of the Company's material underwriting risk exposure comes from the MBI product within the Miscellaneous Financial Loss class, which continues to represent the largest class of business during 2022.

### Market Risk

Market risk is the risk of loss of income or decrease in the value of assets caused by movements in the level and prices of financial instruments. Market risk includes factors such as equity values, interest rates, foreign exchange and spread risk.

The Company's material exposures to market risk include concentration risk on intercompany loans, interest rate risk and spread risk on its bond portfolio, and foreign currency exchange risk arising from fluctuations in exchange rates of various currencies.

### Credit Risk

Credit risk is the potential loss arising from the failure of third parties to meet their payment obligations to the Company.

In MICL, the main area of credit risk is in relation to amounts due from reinsurance companies, insurance intermediaries, clients and amounts held with banks and other financial institutions.

### Other risks

MICL is also exposed to the following other risks:

- Liquidity risk
- Operational risk
- Legal and regulatory risk.

During 2021, MICL embedded climate change risk management within its ERM Framework. Throughout 2022, MICL has continued its focus in this area.

The ongoing risks associated with the Russian invasion of Ukraine were another area of significant focus in 2022. An initial risk assessment, completed in 2021 and updated for 2022 has been summarised in section C of this report.

### Valuation for solvency purposes

MICL's assets and liabilities are valued differently when calculating its regulatory capital under Solvency II and when preparing its annual accounts for filing at Companies House. The former applies the valuation rules from the Solvency II Directive, and the latter applies valuation rules under Generally Accepted Accounting Principles (GAAP) in the UK.

The following is a summary level Solvency II Balance Sheet as at 31 December 2022 and 31 December 2021 for comparison (note that throughout this document the values given in the tables are rounded to the nearest thousand pounds, the totals are rounded values of the actual totals):



Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investments				
Bonds				
Government bonds	118,530	427	-	118,958
Corporate bonds	58,633	862	-	59,495
Loans and mortgages	15,900	178	608	16,686
Reinsurance recoverables	81,280	25,463	(44,733)	62,009
Deposits to cedants	1,666	-	(104)	1,561
Insurance & intermediaries receivables	25,775	(21,871)	-	3,904
Reinsurance receivables	7,545	(3,592)	-	3,954
Receivables (trade, not insurance)	1,311	(69)	-	1,242
Cash and cash equivalents	13,882	-	-	13,882
Any other assets	1,467	(1,467)	-	-
Deferred acquisition costs	32,624	-	(32,624)	-
<b>Total Assets</b>	<b>358,613</b>	<b>(69)</b>	<b>(76,853)</b>	<b>281,691</b>
<b>Liabilities</b>				
Technical provisions – non-life	178,546	32,072	(88,102)	122,517
Deposits from reinsurers	-	41,303	-	41,303
Deferred tax liabilities	-	-	6,280	6,280
Insurance & intermediaries payables	19,597	(16,567)	-	3,029
Reinsurance payables	62,167	(56,877)	-	5,290
Payables (trade, not insurance)	10,862	-	-	10,862
Any other liabilities	13,872	-	(13,872)	-
<b>Total Liabilities</b>	<b>285,044</b>	<b>(69)</b>	<b>(95,694)</b>	<b>189,281</b>
<b>Excess of assets over liabilities</b>	<b>73,569</b>	<b>-</b>	<b>18,841</b>	<b>92,410</b>



Solvency II Balance Sheet As at 31 <sup>st</sup> December 2021	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investments				
Bonds				
Government bonds	72,892	228	-	73,120
Corporate bonds	100,322	1,063	-	101,384
Loans and mortgages	17,250	-	842	18,092
Reinsurance recoverables	61,589	11,021	(19,740)	52,870
Deposits to cedants	2,083	-	(99)	1,984
Insurance & intermediaries receivables	10,356	(6,179)	-	4,177
Reinsurance receivables	7,758	(4,843)	-	2,915
Receivables (trade, not insurance)	270	-	-	270
Cash and cash equivalents	11,331	-	-	11,331
Any other assets	1,291	(1,291)	-	-
Deferred acquisition costs	35,957	-	(35,957)	-
<b>Total Assets</b>	<b>321,099</b>	<b>-</b>	<b>(54,954)</b>	<b>266,145</b>
<b>Liabilities</b>				
Technical provisions – non-life	168,977	18,930	(69,474)	118,432
Deposits from reinsurers	-	39,874	-	39,874
Deferred tax liabilities	-	-	3,954	3,954
Insurance & intermediaries payables	15,960	(13,611)	-	2,349
Reinsurance payables	46,454	(45,192)	-	1,262
Payables (trade, not insurance)	9,159	-	-	9,159
Any other liabilities	6,288	-	(6,288)	-
<b>Total Liabilities</b>	<b>246,838</b>	<b>-</b>	<b>(71,809)</b>	<b>175,029</b>
<b>Excess of assets over liabilities</b>	<b>74,261</b>	<b>-</b>	<b>16,855</b>	<b>91,116</b>

### Assets and Other liabilities

The valuation of most of MCL's assets and other liabilities is the same under UK GAAP and Solvency II. The main differences are:

Insurance and intermediaries payables – Payables to intermediaries and ceding insurers where the amounts are past contractual payment terms are valued at the amount payable, and are discounted where it is expected that the balance will be paid after more than one year under Solvency II. Where the amounts are not past contractual payment terms, i.e., not yet due, they are transferred to net technical provisions. The UK GAAP balance also includes amounts owed in respect of profit-sharing agreements, which are included in net technical provisions in the Solvency II balance sheet as the future amounts payable are directly affected by the future policy cash flows.

Deferred tax liability – The Company has no deferred tax liability under UK GAAP. However, the Solvency II balance sheet has a deferred tax liability balance in respect of the increase in own funds due to the recognition of future profits in technical provisions when calculated on a Solvency II basis.

### Technical Provisions

There are significant differences in the way Technical Provisions (TPs) are required to be calculated under Solvency II in comparison with the UK GAAP provisions. Under Solvency II Claims Provisions and Premium Provisions must be calculated separately on a best estimate basis with no explicit margins included. They should include an allowance for all possible future cash flows, not just the foreseeable ones and include provisions for both allocated and unallocated expenses associated with the business written.





There is a requirement to discount the TPs using risk free yield curves for each currency, which means cash flows of the TPs have to be generated.

Finally, a Risk Margin, which reflects the uncertainty in the cash flows as the TPs run off, is added to the best estimate, which must be calculated using the prescribed cost of capital approach.

More details on the specific methodologies used by MICL in the calculation of its TPs and how they differ from the statutory provisions are provided in the main body of this report in section D.

The following table shows a summary of MICL's total Technical Provisions as of 31 December 2022:

Solvency II Class of Business	Best Estimate Technical Provisions	Solvency II Risk Margin	Solvency II Value	Reinsurance Recoverable	Net Technical Provisions
	£'000	£'000	£'000	£'000	£'000
Other motor insurance	12,780	362	13,142	6,801	6,341
Assistance	349	10	359	188	170
Miscellaneous financial loss	106,011	3,005	109,016	55,020	53,996
<b>Total</b>	<b>119,140</b>	<b>3,377</b>	<b>122,517</b>	<b>62,009</b>	<b>60,508</b>

The following table shows a summary of MICL's total Technical Provisions as of 31 December 2021:

Solvency II Class of Business	Best Estimate Technical Provisions	Solvency II Risk Margin	Solvency II Value	Reinsurance Recoverable	Net Technical Provisions
	£'000	£'000	£'000	£'000	£'000
Other motor insurance	14,535	474	15,008	7,242	7,766
Assistance	226	7	233	131	102
Miscellaneous financial loss	99,934	3257	103,191	45,497	57,693
<b>Total</b>	<b>114,694</b>	<b>3,738</b>	<b>118,432</b>	<b>52,870</b>	<b>65,562</b>

## Capital Management

MICL uses an external system, Solvency Tool, to calculate its SCR using the Standard Formula. The Company does not use any Undertaking Specific Parameters (USPs) allowed under Solvency II, nor does it use simplified calculations for any of the risk modules. MICL's capital structure is 100% tier 1.

MICL maintains an internal minimum management target for the Solvency II ratio. The Solvency II ratio as at 31 December 2022 was 157%<sup>2</sup> (2021: 150%), which is above the Company's internal risk appetite.

Capital Requirements 31 December	2022		2021	
	£000	Coverage	£000	Coverage
Own Funds	86,410		91,116	
SCR	55,100	157%	60,835	150%
MCR	19,296	448%	19,939	457%

The reduction in Own Funds from 2021 to 2022 reflects the payment of total dividends in the period of £12m. The SCR coverage increased from 150% in 2021 to 157% in 2022. This remains well within the Board's risk appetite.

<sup>2</sup> Taking account of £6m dividend paid in February 2023.



MICL's SCR, split by risk module as of 31 December 2022, is shown in the table below, with 2021 figures for comparison:

	2022 £'000	2021 £'000
Counterparty Default Risk	3,704	3,084
Market Risk	12,731	12,821
Non-Life Underwriting Risk	50,422	54,618
<b>Undiversified BSCR</b>	<b>66,858</b>	<b>70,523</b>
Diversification Credit	(9,853)	(9,733)
<b>Basic SCR</b>	<b>57,005</b>	<b>60,789</b>
Operational Risk	4,376	3,999
Adjustment for Deferred Taxes	(6,280)	(3,954)
<b>SCR</b>	<b>55,100</b>	<b>60,835</b>

The value calculated for each individual risk is the estimated loss that would be incurred in an adverse scenario for that specific risk. As not all of these negative outcomes would be expected to occur within a short time frame the Standard Formula SCR calculation allows for a diversification benefit which is an estimate of the total reduction in the overall level of risk. The effect of diversification in 2022 has reduced the SCR by £9.9m (2021: £9.7m) with the increased diversification benefit being due to the reduction in Non-Life Underwriting Risk.

#### Directors' statement in respect of the SFCR

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA rules and the Solvency II Regulations.

We are satisfied that:

- Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer
- It is reasonable to believe that the insurer has continued to comply subsequently and will continue to comply in the future.

Approved on behalf of the board by:

Simon Wright  
Chief Financial Officer  
3 April 2023



## External Audit Report

With effect from the year ended 31 December 2018, MICL is exempt from the requirement to obtain an external audit of the SFCR. This follows the PRA's decision to remove the audit requirements in respect of the SFCRs for any insurer that meets the definition of a 'small firm for external audit purposes', as set out in PRA policy statement PS25/18.

# Business and Performance

## Section A

---



## A. Business and Performance

### A.1 Business

#### A.1.1 Name and legal form of undertaking

Motors Insurance Company Limited (MICL)  
Jubilee House  
5 Mid-Point Business Park  
Thornbury  
West Yorkshire  
BD3 7AG

MICL is a company limited by shares, authorised and regulated by the PRA and regulated by the FCA.

#### A.1.2 Supervisory authority

MICL is regulated by The Prudential Regulation Authority (PRA). The PRA was created as a part of the Bank of England by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA's objectives are set out in the Financial Services and Markets Act 2000 (FSMA).

Prudential Regulation Authority  
Bank of England,  
Threadneedle St,  
London, EC2R 8AH  
Tel 020 7061 4878  
[enquiries@bankofengland.co.uk](mailto:enquiries@bankofengland.co.uk)

MICL belongs to the AmTrust International Ltd (AIL) group of companies. The Group is also supervised by the PRA.

MICL is also regulated by the Financial Conduct Authority (FCA). The FCA's registered address is as follows:

Financial Conduct Authority  
12 Endeavour Square  
Stratford  
E20 1JN

#### A.1.3 External auditor

MICL, together with the wider AmTrust Group, is audited by KPMG LLP. KPMG's UK office is located at:

KPMG LLP,  
15 Canada Square,  
London,  
E14 5GL  
Tel 020 7311 1000

#### A.1.4 Shareholders of qualifying holding in the undertaking

MICL is a wholly owned subsidiary of Car Care Plan (Holdings) Limited (CCPH), which in turn is a wholly owned subsidiary of the UK holding company, AmTrust International Limited (AIL) which is a UK limited company.

The Company's ultimate parent is Evergreen Parent GP, LLC ('Evergreen'), a Delaware registered US limited liability company.

Evergreen's registered address is as follows:

Evergreen Parent GP, LLC  
Corporation Trust Center, 1209 Orange Street, Wilmington, DE, 19801

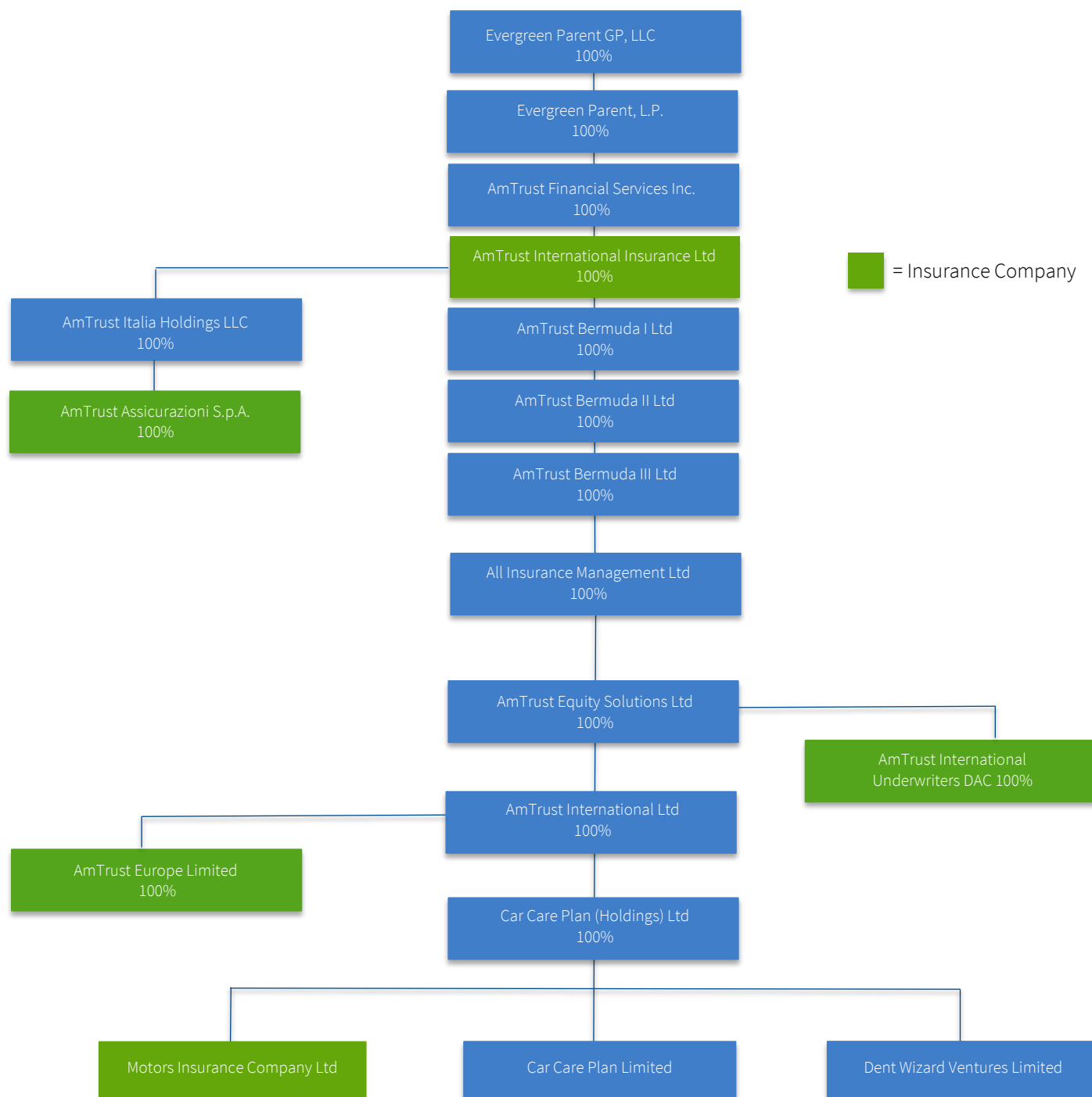


As a member of the AmTrust Group, the Company benefits from financial, operational and management support. The AmTrust Group is a multinational property and casualty insurer specialising in small to medium sized businesses. With extensive underwriting experience and a prestigious “A-” (Excellent) Financial Size “XV” rating from A.M. Best, the AmTrust Group has earned a reputation as an innovative, technology driven provider of insurance products. Commitment to excellence is a common thread connecting each of the AmTrust Group companies. The AmTrust Group’s business model focuses on achieving targeted returns and profit growth with the careful management of risk. The AmTrust Group pursues these goals through geographic and product diversification, as well as an in-depth understanding of its insured exposure. The product mix includes, primarily: workers’ compensation; extended warranty; and other commercial property/casualty insurance products, including title insurance. Workers’ compensation and property/casualty insurance policyholders in the United States are generally small and middle market businesses. Extended warranty customers are manufacturers, distributors and retailers of commercial and consumer products. The AmTrust Group has also built a strong and growing distribution of extended warranty and specialty risk products, including liability and other property/casualty products, in Europe.



#### A.1.5 Position within the legal structure of the group

The following simplified group structure chart shows where MICL sits within the wider AmTrust Group:





#### A.1.6 Material lines of business and material geographical areas where MICL carries out business

In 2022 MICL's core product lines were Mechanical Breakdown Insurance (MBI) and Guaranteed Asset Protection (GAP), in the Miscellaneous Financial Loss Solvency II class of business, a small amount of Wholesale Floor Plan (WFP), Alloy Wheel Repair Insurance, Cosmetic Repair Insurance and Tyre Insurance (ACT), in the Motor Other Solvency II class of business and a small amount of Roadside Assistance (RAS), in the Solvency II Assistance class of business.

The material geographic areas are UK and Europe.

#### A.1.7 Material events

On 1<sup>st</sup> July 2022, MICL (with other companies in the AmTrust Group), made the strategic decision to renew its quota share reinsurance arrangement under which 50% of all written premiums (net of other reinsurances and similar deductions) and claims will be ceded to a highly rated reinsurer (AA- with Standard & Poor's). Whilst MICL's capital position remains comfortably within the Board defined risk appetite since the implementation of Solvency II, the quota share provides additional capital coverage to support future growth. The arrangement has contributed to net written premiums reducing and Solvency II capital coverage stability across the reporting period. The arrangement was renewed on 1<sup>st</sup> July 2022 on a 'funds withheld' basis.

In addition, as a risk mitigation surrounding volatility in residual vehicle values, a 50% quota share reinsurance agreement was entered in to with another large European A+ rated reinsurer for the GAP portfolio, effective for all contracts written after 1<sup>st</sup> July 2022.

In June 2022, the Company paid a £6m dividend to its shareholder. A further £6m dividend was paid in February 2023.

In March 2022, A.M. Best assigned MICL a Financial Strength Rating of A- (Excellent) and a Long-Term Issuer Credit Rating of "a-" due to its balance sheet being assessed as very strong, as well as its strong operating performance, limited business profile and appropriate enterprise risk management.

The ongoing supply chain issues, originally stemming from the Coronavirus pandemic, then exacerbated by the Russian invasion of Ukraine has continued to impact the Company.

Other material events, which have posed risks to the business include the UK cost of living crisis, global inflation and political instability in the UK. These are covered in more detail in section C of this report.

### A.2 Underwriting Performance

The Company's Report and Financial Statements are prepared in compliance with UK Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland". The following information on performance is aligned to the position in the Company's Report and Financial Statements.



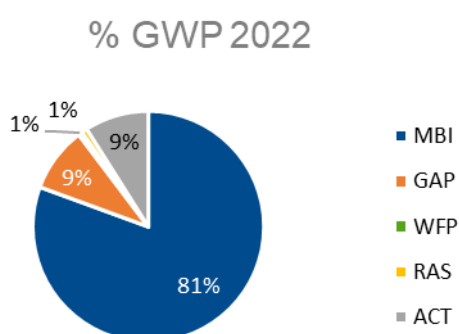
The table below shows the underwriting performance broken down by Solvency II class of business.

2022	Motor (other classes)	Assistance	Miscellaneous financial loss	Total
	£'000	£'000	£'000	£'000
GWP – Direct	14,701	1,207	130,314	146,222
GWP – Proportional reinsurance	-	-	8,024	8,024
Reinsurers' share	(6,790)	(597)	(67,123)	(74,510)
Net premiums written	<b>7,911</b>	<b>610</b>	<b>71,215</b>	<b>79,736</b>
Gross premiums earned – Direct	12,896	746	119,095	132,738
Gross premiums earned – Reinsurance	-	-	13,123	13,123
Reinsurers' share	(4,730)	(314)	(51,472)	(56,516)
Net premiums earned	<b>8,166</b>	<b>432</b>	<b>80,746</b>	<b>89,344</b>
Gross claims incurred – Direct	6,917	385	75,022	82,324
Gross claims incurred – Reinsurance	(4)	-	4,173	4,169
Reinsurers' share	(3,200)	(188)	(42,636)	(46,024)
Net claims incurred	<b>3,713</b>	<b>197</b>	<b>36,559</b>	<b>40,469</b>
Expenses incurred	<b>4,582</b>	<b>59</b>	<b>33,947</b>	<b>38,589</b>
Other Expenses	-	-	-	-
<b>Net technical result</b>	<b>(129)</b>	<b>176</b>	<b>10,239</b>	<b>10,286</b>

MICL Gross Written Premium (GWP) in 2022 was £154m (2021: £136m), growth of approximately 13.2% on 2021.

As noted at A.1.6 above, MICL's core product lines are MBI and GAP, in the Miscellaneous Financial Loss Solvency II class of business, and ACT in the Motor Other Solvency II class of business and a small amount of Roadside Assistance (RAS), in the Solvency II Assistance class of business.

The split of GWP by product is shown below:

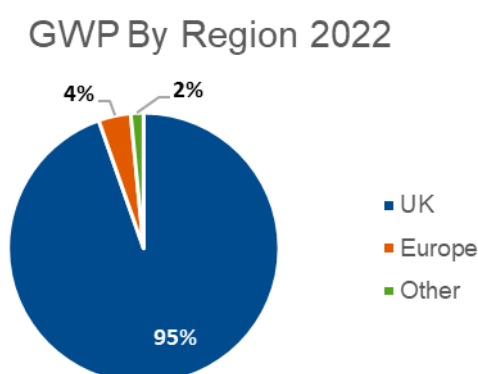


Assistance and Wholesale Floor Plan both represent less than 1% of GWP. Assistance is only underwritten in the UK and Wholesale Floor Plan underwriting ceased on 1 March 2023.

In 2022, MICL delivered an underwriting profit across the business which was 18% above 2021. Underwriting performance in 2022 continued to be impacted by high residual values of vehicles, and changes in vehicle usage since the pandemic.



The split of MBI GWP by region is shown below:



Material events that affected performance in 2022, were:

- The impact of the pandemic was less marked than in the previous year. MBI GWP grew by 23% (2021: 30% increase) in MICL's largest market (UK). MBI GWP in mainland Europe reduced by 23% (2021: 6% increase). MBI GWP in other countries fell by 76% (2021: 23% increase) which mainly related to reductions in China, where following changes to regulations MICL no longer conducts business, and Brazil. All key MBI markets remained profitable.
- GAP is only underwritten in the UK and GWP grew by 32% in 2022 (2021: 26% fall) primarily as a result of lockdown easing following the pandemic and new car supply being stronger than in 2021. High residual values on vehicles continued in 2022 and therefore GAP once again produced an underwriting profit in the period.
- ACT revenue increased during 2022, with GWP growing 15% (2021: 36% increase); in part this is due to the lockdown experienced during Q1 2021, but also rating action on the Cosmetic Repair Insurance business.
- WFP is a very small part of the portfolio and due to the semi-conductor shortages still being experienced since the pandemic and the supply chain issues experienced since the Russian invasion of Ukraine, vehicle stock was very low in H1 2021, and this impacted on the revenue from this product. From 1<sup>st</sup> March 2023 this business line has ceased and MICL no longer underwrites this product. There were no losses that triggered the excess of loss cover, and the combined WFP portfolio continued to deliver a small underwriting profit.
- RAS provided an underwriting surplus in line with prior years.

### A.3 Investment Performance

MICL invests in a range of high-quality assets consisting primarily of fixed interest debt instruments in the form of corporate and government bonds, and interest-bearing intercompany loans. All of the investments through the reporting period and at the reporting date were directly held. The aim of the investment strategy is to maximise return to the Company whilst minimising risk with respect to the proportion of investments that match the technical provisions. At the reporting date, MICL's investments were as follows:



	2022		2021	
	£'000	%	£'000	%
Corporate bonds	59,495	28.5%	101,384	49.7%
Government bonds	118,958	56.9%	73,120	35.8%
Loans and mortgages	16,686	8.0%	18,092	8.9%
Cash and cash equivalents	13,882	6.6%	11,331	5.6%
Total	209,020	100%	203,928	100%

The Company's fixed interest debt instruments are managed as a single portfolio. During the year the portfolio yielded £2,795k (2021: £3,033k) in coupons, £6,112k (2021: £4,226k losses) in unrealized losses and £233k (2021: £301k losses) in net realized gains. The investment management expenses in connection with the portfolio were not material.

In 2019 the Company made a loan to a wholly owned company within the AmTrust Group. The loan was made on an arm's length basis and accrues interest at a fixed amount above the SONIA interest rate. During the period the loan accrued £482k (2021: £313k) in interest, that would have been capitalised where it had not been paid by the borrowing entity. During the period, £1.35m (2021: £2.75m) of the principal of the loan was repaid.

The Company maintains cash balances to meet working capital requirements, and also as part of its asset and liability matching strategy in respect of foreign currencies. The Company received interest of £8k (2021: £18k) from its cash deposits during the period.

#### A.4 Performance of other activities

There have been no other significant activities undertaken by MICL other than its insurance, investment and related activities.

#### A.5 Any other information

There is no other material information applicable to this section of the document.

# System of Governance

Section B

---





## B. System of Governance

### B.1 General information on the system of governance

#### B.1.1 The Board and System of Governance

MICL has developed a system of corporate governance to ensure that there is a clear process of decision making, combined with accountability and transparency.

The Board bears the ultimate responsibility for setting and achieving MICL's strategy and putting in place appropriate systems and infrastructures to manage the associated risk in its business model. In line with established best practices within the insurance market, MICL follows the "Three Lines of Defence" model of risk management and internal control.

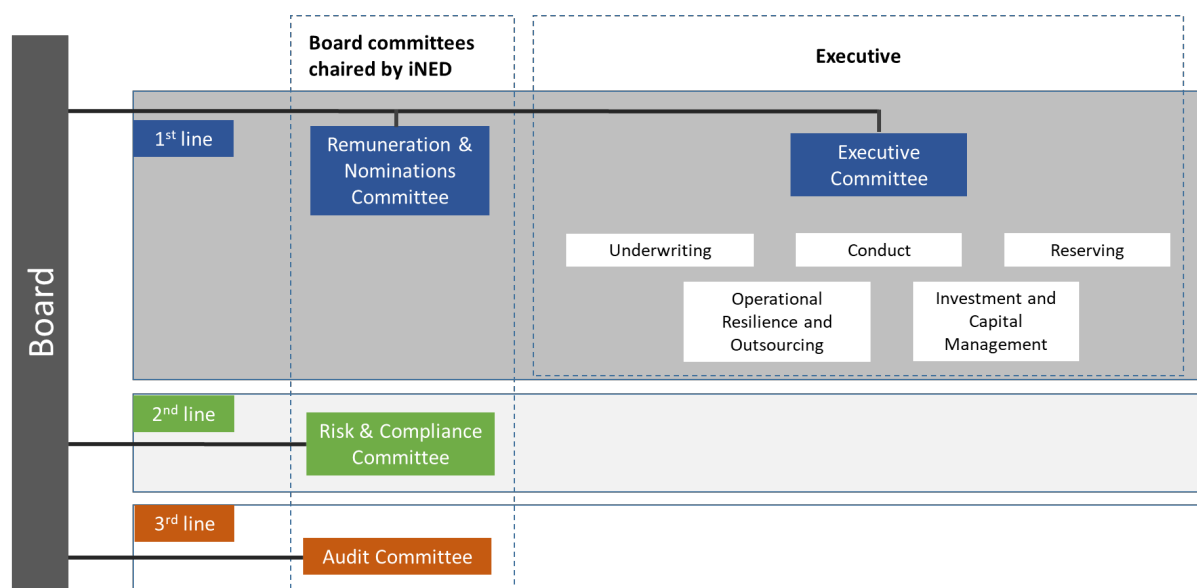
First Line Activities	Second Line Activities	Third Line Activities
<p>Management has ownership, responsibility and accountability for identifying, assessing and managing risks.</p> <p>Functions and committees are designed by the Board and SMF 1 to:</p> <ul style="list-style-type: none"> <li>• Manage risks</li> <li>• Design and implement controls</li> <li>• Measure control effectiveness</li> </ul>	<p>Specialist functions provide oversight and challenge of First Line Activities. These functions monitor and assist with the implementation of effective risk management undertaken by First Line Activities and assist with the reporting of risk.</p> <p>The Compliance and Risk Management functions are Second Line Activities.</p>	<p>Internal Audit is an independent oversight function, providing assurance, via risk based internal audits, that the First and Second Line Activities are adequate.</p> <p>The Internal Audit function reports directly to the Audit Committee and provides oversight of First and Second Line Activities.</p>

##### B.1.1.1 Board and Committee Structure

MICL currently has four Executive Directors, two Non-Executive Directors and two Independent Non-Executive Directors. The Executive Directors are heavily involved in the day-to-day running, governance and oversight of the business.

CCPH has its own corporate governance framework in place to meet the relevant regulatory requirements. This framework consists of its own Board and Committee structure and systems of internal control.

The Company's key committees are depicted below:



The tables below provide an overview of the purpose of each of the committees highlighted in the above diagram, identifying whether these sit within the first, second or third line of defence.



MICL BOARD OF DIRECTORS	
FIRST LINE	
<b>Purpose:</b> <ul style="list-style-type: none"> <li>– Manage the business of the Firm in accordance with best practice in the insurance industry and applicable legal and regulatory obligations.</li> <li>– Agree and oversee the implementation of the Firm’s culture, strategy, risk appetite, business plan and policies.</li> <li>– Establish a management structure, governance arrangements and an internal control framework that meet the applicable law and regulation, and that support the achievement of the Firm’s strategic aims.</li> <li>– Oversee the management of the Firm in accordance with the goals of the Firm’s parent company, especially with regard to optimising underwriting performance over the cycle.</li> <li>– Monitor and oversee the Firm’s operations against the requirements set out in the Senior Managers and Certification Regime.</li> </ul>	
<b>Reporting</b>	To the CCPH Board

CCPH EXECUTIVE COMMITTEE	
FIRST LINE	
<b>Purpose:</b> <ul style="list-style-type: none"> <li>– Deal with the day-to-day activities of the business.</li> <li>– Develop and implement business plans, policies, procedures and budgets that have been recommended and approved by the Board or relevant Committee.</li> <li>– Monitor the operating and financial performance of the business, including capital vs. solvency requirements.</li> <li>– Implement the policy and strategy adopted by the Board and deal with all operational matters affecting the business.</li> <li>– Of its own motion or at the request of the Board, promptly give or make available to the Board such information, reports and other documents to enable the Board to carry out its duties.</li> </ul>	
<b>Reporting</b>	To the CCPH Board

CCPH REMUNERATION & NOMINATIONS COMMITTEE	
FIRST LINE	
<b>Purpose:</b> <ul style="list-style-type: none"> <li>– Review and approve the applicable remuneration policy.</li> <li>– Review the composition of the Board, executive management, and Senior Manager Function holders.</li> <li>– Approve the appointment and remuneration terms of Senior Manager Function holders, Executive Committee members and other employees, including any Certification Function holder, with a proposed fixed base annual salary in excess of £150,000.</li> <li>– Comment on material changes to relevant pension and other benefit plans.</li> <li>– Annually review the Solvency II employee list and review their performance ratings and recommendations for performance related compensation.</li> <li>– Review the Succession Plan for the Board, Senior Manager Function holders and executive management.</li> <li>– Review people and culture key performance indicators associated with employees and culture.</li> </ul>	
<b>Reporting</b>	To the CCPH Board



CCPH CONDUCT COMMITTEE	
FIRST LINE	
<b>Purpose:</b> <ul style="list-style-type: none"> <li>– Oversee the conduct of business across the entirety of CCP's operations, ensure appropriate management of conduct risk and safeguard the needs of CCP's customers.</li> <li>– Monitor the performance of CCP and its delegated partners against the firm's Conduct Risk Appetite and Customer Outcome Statements.</li> <li>– Approve the onboarding and renewal of "High" risk-rated delegated partners.</li> <li>– Approve new and existing insurance products that are rated as having a "High" risk rating, where these are not suitable for approval, they may be returned to the business for further work.</li> <li>– Maintain oversight of CCP's Delegated Authority and Product Governance Frameworks, and make recommendations for improvements to these frameworks.</li> <li>– Take appropriate action, including escalation to the Board, where the Committee judges CCP to be outside of its stated Risk Appetite or unaligned to its Customer Outcomes Statements.</li> <li>– Review the Conduct MI Suite against Risk Appetite.</li> </ul>	
<b>Reporting</b>	To the CCPH Executive Committee

MICL RESERVING COMMITTEE	
FIRST LINE	
<b>Purpose:</b> <ul style="list-style-type: none"> <li>– Ensure the Firm books appropriate loss ratios on a gross and net basis (i.e., after reinsurance) and hence maintains appropriate levels of reserves.</li> <li>– Ensure the accuracy of the Firm earning patterns and hence maintains appropriate levels of reserves.</li> <li>– Determine and recommend reserving methodology for the business underwritten by the Firm.</li> <li>– Ensure the reserving process for the firm is effective in providing the Board with the agreed level of comfort that the reserves in the Financial Statements are appropriate.</li> <li>– Ensure the process is conducted in accordance with agreed timelines.</li> <li>– Ensure that the process for establishing the Solvency II technical provisions is appropriate.</li> </ul>	
<b>Reporting</b>	To the CCPH Executive Committee

MICL UNDERWRITING COMMITTEE	
FIRST LINE	
<b>Purpose:</b> To monitor: <ul style="list-style-type: none"> <li>– Underwriting performance of each line of business against the approved risk appetite and business plan and report any exceptions to the Executive Committee.</li> <li>– Pricing adequacy of each line of business against the approved risk appetite and business plan and report any exceptions to the Executive Committee.</li> <li>– Reinsurance programme adequacy and usage.</li> <li>– Adherence to underwriting policies, guidelines, authorities, processes and procedures, and to report any exceptions to the Executive Committee and / or the Conduct Committee, as appropriate.</li> <li>– The insurance and reinsurance underwriting risk profile, exposures at risk and aggregate level and the steps that have been taken to monitor and control such exposures.</li> <li>– Claims movements and large losses.</li> <li>– Bordereau receipt and processing.</li> <li>– Credit risk associated with underwriting, including counterparty default risk and credit exposure.</li> <li>– Independent Expert Review reports and recommended actions.</li> </ul>	



<ul style="list-style-type: none"> <li>– Review and approve new or renewal business on which any of the relevant terms of the deal exceeds the underwriting authority level of the Chief Underwriting Officer.</li> </ul>	
Reporting	To the CCPH Executive Committee

OPERATIONAL RESILIENCE AND OUTSOURCING COMMITTEE	
FIRST LINE	
<b>Purpose:</b> <ul style="list-style-type: none"> <li>– Developing and overseeing operational resilience framework.</li> <li>– Overseeing and monitoring outsourcing of IT to AmTrust Management Services Limited (an AmTrust group company).</li> <li>– Overseeing and monitoring other operational outsourcing arrangements.</li> <li>– Approval of new outsourcing arrangements and the renewal of existing arrangements.</li> <li>– Reviewing and monitoring data quality and security.</li> </ul>	
Reporting	To the CCPH Executive Committee

MICL INVESTMENT AND CAPITAL MANAGEMENT COMMITTEE	
FIRST LINE	
<b>Purpose:</b> <ul style="list-style-type: none"> <li>– Supervise the day to day stewardship of invested assets by its appointed internal and external investment managers.</li> <li>– Establish the investment strategy, policies and procedures, and monitor these according to the Company's agreed risk appetite and risk tolerances supported by the Risk Management and Compliance functions.</li> <li>– Make recommendations to the MICL Board and CCPH Risk and Compliance Committee for those items requiring consultation and approval.</li> <li>– Review, approve and/or monitor capital model development, capital results and forecasts.</li> <li>– Ensure that the Firm's capital remains within the Risk Appetite approved by the Board.</li> </ul>	
Reporting	To the CCPH Executive Committee

CCPH RISK AND COMPLIANCE COMMITTEE	
SECOND LINE	
<b>Purpose:</b> <ul style="list-style-type: none"> <li>– Provide advice to the Board on risk strategy, including the oversight of the Firm's risk exposures, with particular, but not exclusive, emphasis on risks of regulatory concern.</li> <li>– Develop proposals for consideration by the Board in respect of the setting of risk appetite, tolerance levels and the metrics to be used to monitor CCP's risk management performance.</li> <li>– Review the effectiveness of the Firm's risk management framework and compliance assurance programme.</li> <li>– Provide oversight and challenge of the design and execution of stress and scenario testing.</li> <li>– Provide oversight and challenge of the day-to-day risk management and oversight arrangements of the Executive Committee.</li> <li>– Provide oversight and challenge of the due diligence of risk issues relating to material transactions and strategic proposals that are subject to approval by the Board.</li> <li>– Provide advice to the Remuneration and Nominations Committee on risk weightings to be applied to performance objectives incorporated in the incentive structure for the Executive Committee members.</li> </ul>	
Reporting	To the CCPH Board



CCPH AUDIT COMMITTEE	
THIRD LINE	
<b>Purpose:</b>  <b>To monitor:</b> <ul style="list-style-type: none"> <li>– Oversee the firm’s policies and processes for financial and prudential regulatory reporting and ensure the propriety and effectiveness of internal and external audit arrangements.</li> <li>– Monitor the effectiveness of the internal financial controls regarding the financial report.</li> <li>– Approve the Internal Audit Plan and receive reports from Internal Audit on the effectiveness of internal controls.</li> <li>– Monitor the statutory audit of the annual financial statements.</li> <li>– Make a recommendation for the appointment of the external audit firm.</li> <li>– Review and monitor the external auditor’s qualifications and independence.</li> <li>– Review and monitor the suitability of the provision of non-audit services to the firm.</li> <li>– Review and monitor compliance by the firm with legal and regulatory requirements relating to audit and financial reporting functions; and review and monitor the firm’s internal audit function.</li> <li>– Review the adequacy and security of the firm's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.</li> </ul>	
<b>Reporting</b>	To the CCPH Board

### Senior Management Functions

Under the Senior Managers and Certification Regime, MICL is classed an enhanced firm. Senior Management Functions have been allocated as follows:

SMF Number	SMF Role	Allocation – MICL Role	Name
<b>SMF 1</b>	Chief Executive	Group Chief Executive Officer	Ben Russell
<b>SMF 2</b>	Chief Finance Function	Group Chief Financial Officer	Simon Wright
<b>SMF 3</b>	Executive Director	Not Applicable	Not Applicable
<b>SMF 4</b>	Chief Risk Function	Group Chief Risk and Compliance Officer	Gavin Tinch
<b>SMF 5</b>	Head of Internal Audit	Head of Internal Audit	Valisher Ibragimov
<b>SMF 6</b>	Head of Key Business Area	Not Applicable	Not Applicable
<b>SMF 7</b>	Group Entity Senior Manager	AIL Chief Executive Officer	Peter Dewey
		AIL Head of HR	Helen Challis
		AIL General Counsel	Jeremy Cadle
<b>SMF 9</b>	Chair	Independent Non-Executive Director and Chair	Liz Blythe
<b>SMF 10</b>	Chair of the Risk Committee	Independent Non-Executive Director	Bob Brannock
<b>SMF 11</b>	Chair of the Audit Committee	Independent Non-Executive Director and Chair	Liz Blythe
<b>SMF 12</b>	Chair of the Remuneration Committee	Independent Non-Executive Director	Bob Brannock
<b>SMF 13</b>	Chair of the Nominations Committee	Not Applicable	Not Applicable <sup>3</sup>
<b>SMF 14</b>	Senior Independent Director	Not Applicable	Not Applicable

<sup>3</sup> SMF 13 role not applicable due to FCA overlap rule



<b>SMF 16</b>	Compliance Oversight	Group Chief Risk and Compliance Officer	Gavin Tinch
<b>SMF 17</b>	Money Laundering Reporting Officer	Group Chief Risk and Compliance Officer	Gavin Tinch
<b>SMF 18</b>	Other Overall Responsibility	Not Applicable	Not Applicable
<b>SMF 20</b>	Chief Actuary	Group Chief Financial Officer	Simon Wright
<b>SMF 23</b>	Chief Underwriting Function	Group Chief Executive Officer	Ben Russell
<b>SMF 24</b>	Chief Operations Function	Group Chief Operating Officer	Andrew Radi

Full details of their responsibilities are documented in MCL's Responsibilities Map.

### Certification Regime Roles

MCL has identified the Head of Finance, Head of Actuarial, Head of Underwriting & Reinsurance, Sales Director, Head of Governance & Company Secretary and Operational Resilience and Outsourcing Manager as Certification Regime Roles. Full details of their responsibilities are documented in each individual's role profile.

#### B.1.2 Remuneration

##### B.1.2.1 *The Key Principles of the Company's Remuneration Policy*

- Provide market competitive pay, typically aimed at market median for the business sector, role and location of the relevant employees; Individual pay rates may fall above or below market median based upon experience, tenure and performance in role as well as the market supply and demand for a particular skillset.
- Enable the Company to attract and retain the right talent for the business at an appropriate and sustainable cost.
- Provide market-appropriate pay structures which include a role-appropriate level of variable pay in line with market norms and an appropriate benefits programme.
- Ensure that pay programmes are aligned to the Company's business strategy, culture, risk appetite statements, codes of conduct and applicable regulations and reward only behaviour with both short and long term performance taken into consideration as appropriate.
- Ensure the appropriate governance and independence as it relates to pay decisions and the appropriate scrutiny as it relates to key employees, including those designated as Solvency II employees.
- No member of the Remuneration and Nominations Committee is involved in deliberations or decision making on his/her own pay or the pay of the other members of the Remuneration and Nominations Committee.

##### B.1.2.2 *Variable Pay*

- Variable pay and the associated programmes and awards are structured according to the nature of the role and its position within the business.
- Fixed and variable pay are broadly aligned to market norms, with a sufficiently high proportion of pay delivered in fixed form to be competitive with market median levels and appropriate on a role-by-role basis.
- The proportion of pay delivered through variable remuneration generally increases with seniority within the organisation. This reflects the increased ability to impact the success of the organisation with increased seniority and is in line with general market practice.
- Variable pay awards are designed to take into consideration both individual and Company performance as appropriate for the role. Individual performance is assessed based upon performance against objectives (financial and non-financial) and also in line with the Company's competency framework. Company performance is aligned to agreed financial metrics.





- All variable pay programmes allow for no awards to be made based upon either individual and/or Company performance.
- All programmes allow flexibility and discretion which permit the Board, Remuneration and Nominations Committee and management to ensure appropriate awards are made in all circumstances.
- To ensure that the Company's senior employees (including the Company's Solvency II Employees) are aligned not only to the annual goals of the Company but equally as importantly, the long-term success of the business and group, a substantial portion (50%) of any variable pay award in excess of a set threshold, is deferred and payable in equal amounts over a multi-year period, typically 4 years.
- To ensure alignment to risk, culture and performance of the business, provisions exist so that Remuneration and Nominations Committee has the ability not to permit payment of some or all of the tranches of the award.

#### B.1.2.3 Pensions

The Company's remuneration policy does not include any supplementary pension or early retirement schemes for members of the Board or other Senior Manager Functions.

#### B.1.3 Material transactions with shareholders, persons with significant influence and Board members

During 2019, the Company made a loan to another wholly owned company within the AmTrust Group. The loan was made on an arm's length basis and accrues interest at a fixed amount above the SONIA interest rate. In 2022, a £1.35m (2021: £2.75m) repayment of principal was made.

In June 2022, the Company paid a £6m dividend to its shareholder. A further £6m dividend was paid in February 2023.

In relation to remuneration, there were no material transactions during the reporting period with shareholders, with persons who exercise a significant influence in the undertaking or with members of the Board, with the exception of usual compensation and incentive payments.

#### B.1.4 Adequacy of the system of governance

The Board is satisfied that the system of governance of the Company is adequate for the nature, scale and complexity of the risks inherent in its business.

### B.2 Fit and Proper Requirements

#### B.2.1 Fit and Proper Policy and Procedures

The purpose of the Fit and Proper Policy is to explain the rules and processes the Board has adopted to establish compliance with the regulatory requirements associated with the fitness, propriety, skills and knowledge of its employees. MICL is committed to ensure that:

- All employees have the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.
- The Company's systems and controls will enable it to satisfy itself of the suitability of anyone who acts for it. This includes assessing an individual's honesty and competence.
- Any assessment of an individual's suitability will take into account the level of responsibility that the individual will assume within the Company.
- Ongoing training and development of individuals within the business is completed to ensure they continue to possess the skills and knowledge to discharge their responsibilities.

##### B.2.1.1 Fitness

MICL will ensure that individuals promoted to, or recruited for, Senior Management Functions (SMFs) or Certification Regime Roles have relevant qualifications, knowledge and experience in the following areas (where applicable to the role):

- Insurance and financial markets
- Business strategy and business model



- Systems of governance
- Financial and actuarial analysis
- Regulatory framework and requirements.

#### B.2.1.2 Propriety

MICL will assess an individual's honesty and financial soundness based on relevant evidence regarding their character, personal behaviour and business conduct. This includes any criminal, financial or supervisory aspects, regardless of jurisdiction.

To help ensure the on-going fitness and propriety of those employees in SMFs or Certification Regime Roles, MICL conducts an annual Fit and Proper Assessment.

The assessment is completed by all employees designated as SMFs or Certification Regime Roles. This process is supported by:

- An up-to-date role profile, which details the individual's responsibilities, expected behaviours, skills and qualifications.
- Individual Development Plans (IDPs) to ensure on-going competence.
- Completion of any Continuing Professional Development (CPD) requirements applicable to the role.
- The annual performance review process, which includes mid-year reviews, annual reviews and the development of IDPs.

### B.3 Risk management system including the own risk solvency assessment

#### B.3.1 Risk Management Strategy

Risk management at Motors Insurance Company Limited is an on-going process providing for the systematic analysis, management, monitoring and reporting of risks. This process ensures that the Board, Senior Management Functions, Certification Regime role holders and management have a current overview of the risk profile of the Company and allow sufficient time for the appropriate handling of risks at an early stage.

The overall risk management strategy of the Company is to support the Board in executing and monitoring the current and future business strategy, by the implementation of a robust and pragmatic risk management framework.

The Company's objectives for risk management are to:

- Provide the appropriate level of risk information to the Board and its committees to support the decision making process.
- Promote a risk culture which reflects that of the key stakeholders and the Board.
- Ensure that all significant risks to the business strategy and plan are identified, measured, assessed, prioritised, managed, monitored and treated in a consistent and effective manner across the organisation.
- Ensure that risks which have the potential to lead to poor outcomes for consumers are identified and managed appropriately.
- Support the Board in agreeing key risk appetite statements based on the Company's ability to bear risk.
- Provide appropriate and reliable risk management tools (including key risk indicators, loss databases, risk and control self-assessments and stress and scenario testing) are deployed to support risk management, particularly management reporting, decision making and capital assessment.
- Ensure the business remains well capitalised at all times via regular performance of the Own Risk and Solvency Assessment (ORSA) of which risk management is a component.
- Ensure all directors, management and staff are accountable for managing risk in line with their roles and responsibilities in respect of risk management.
- Establish ongoing compliance with all relevant legislation, regulatory requirements, guidance and codes of practice.



- Provide key stakeholders with timely, dependable assurance that the organisation is managing the significant risks to its business within the risk appetites and tolerances agreed.
- Assess the efficiency of the policies and processes for countering the risk that the firm might be used to further financial crime.
- Ensure that the risk strategy aligns with the business strategy and desired culture of the organisation.

The risk management framework is designed to support the effective management of risk and to provide for Three Lines of Defence.

#### *B.3.1.1 First Line of Defence*

##### **Accountability and Oversight**

The Board of MICL has the ultimate accountability for the risk and related control environment, and approves the risk policies, risk appetites and the relevant tolerance limits.

##### **Risk Ownership**

All risks are assigned to a risk owner, who are typically Heads of Department. The risk owners are responsible for managing and co-ordinating all aspects of the risks, ensuring that appropriate controls are in place, ensuring that relevant information is available and assessed, and ensuring that management are aware of the risks and involved in decision making where appropriate in conjunction with the Risk Management Function.

Risk owners are required to ensure that the Risk Management Function is provided with any information that they think is relevant to the current risk environment. This would include any material changes to the perceived severity of the risk or likelihood, and any risk events or 'near misses' that have occurred.

Additional risk oversight is also provided by specified committees, or by senior individuals with recognised expertise and experience. This includes input to relevant risk policies and the control environment, ensuring that the interests and responsibilities of the stakeholders are reflected in the policy.

##### **Control Ownership**

Risk owners are responsible for the effective design and operation of suitable controls. The control owners are required to:

- Perform periodic control self-assessments as directed by the Risk Management Function.
- Inform the Risk Management Function of any material failure in the design, improvements needed or operation of a key control.
- Take any actions required to address control issues on a timely basis identified through day-to-day activities, control assessments, internal audits or other assurance activities.

MICL recognises the importance of successfully articulating and integrating risk management into the organisation's business culture.

#### *B.3.1.2 Second Line of Defence*

##### **Risk and Compliance Committee**

Daily management oversight is delegated to the Risk and Compliance Committee (RCC) and Risk Management Function.

The Board meets on a regular basis and is presented with an overview of key risks, as well as being informed of relevant information through functional reports. Feedback arising from discussions, as well as information on other risk developments is reported back to the Risk Management Function and incorporated into the framework where relevant.

The RCC is a sub-committee of the CCPH Board which operates under an agreed terms of reference that sets out the roles and authorities of the committee. The RCC responsibilities include:

- Oversight of senior management's responsibility to manage the risk profile within the risk tolerances and limits set by the Board.
- To be the owner of the corporate risk register and to be responsible for reviewing it on a regular basis to ensure that the key risks are recorded and are being effectively managed.



- To develop, implement and monitor the risk management policy and guidelines.
- To define risk appetites for review and approval by the Board.
- To advise the Board on the development and implementation of the risk management policy and guidelines and on related matters.
- Review and escalation, as appropriate, of all risk issues and violations.
- Provide details of its activities to the Board.

### **Risk Management Function**

The role of MICL's Risk Management Function is to design and implement a Risk Management System appropriate to the size and complexity of the business.

The purpose of the SMF4, Chief Risk Function, is to lead the MICL Enterprise Risk Management (ERM) Framework. The responsibilities include:

- Managing the implementation of all aspects of the risk function, including implementation of processes, tools and systems to identify, assess, measure, manage, monitor and report risks.
- Assisting in the development of and manage processes to identify and evaluate business areas' risks and risk and control self-assessments.
- Managing the process for developing risk policies and procedures, risk limits and approval authorities.
- Monitoring major and critical risk issues.
- Conducting compliance and risk assessments.
- Defining and producing policies, procedures, processes and other documentation as required.
- Ensuring the programme is effectively integrated into product development and delivery methodology; and
- Identifying and managing financial risks from climate change.

#### *B.3.1.3 Third Line of Defence*

Functions in the third line provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of internal controls and risk management. It is possible to view the second line of defence as providing pro-active control over risk and the third line of defence as providing more reactive control over risk. Internal Audit undertakes the third line of defence.

### **B.3.2 Own Risk and Solvency Assessment (ORSA)**

#### *B.3.2.1 ORSA Process*

The ORSA is the responsibility of the Board, which provides leadership and challenge. Day to day administration of the ORSA is delegated to the RCC and to the Director of Risk and Compliance.

The ORSA process is closely linked to the strategic business planning process. The business plan is constructed by analysing product and market specific factors, with realistic assumptions applied for development. New business opportunities are evaluated for each market and claims ratios are established based on historical performance and a realistic assessment of future performance, taking into account any relevant factors such as regulatory changes or policy revisions. The business plan is prepared on a three-year time horizon. The business plan includes a solvency forecast, which details the forecasts for MCR and SCR.

These figures are compared against projected Own Funds. It is intended that capital requirements will be assessed for each line of business, so that capital can be deployed more efficiently in the future.

The key objective of the MICL ORSA is to document the business' risk profile and capital requirements, and to assess whether the ERM framework and solvency position within the business is appropriate. The ORSA is also designed to provide a forward-looking assessment of the solvency position within the Company. The ORSA forms part of the broader ERM framework in place within the business and is based upon the Company's strategy and business plan for a 3-year forward-looking period.



The ORSA report documents the processes undertaken within MICL to assess its risks and describes the link between risk management and the capital assessment and strategic planning processes. Whilst MICL's Regulatory Capital is determined by the Standard Formula approach, the ORSA is based on a Stochastic Capital Model, which supports the assessment of the Risk Based Capital required by the business.

The ORSA Policy outlines the requirements the MICL Board has put in place to establish:

- Compliance with the regulatory requirements;
- A formal process for the completion and submission of the ORSA Report;
- How the ORSA can be used within the business to inform business strategy and decisions; and
- The appropriate processes, assessment and documentation required when considering the nature, scale and complexities of the risks within the business.

The policy establishes the business rules and processes required to establish on-going compliance with the regulatory requirements. The policy sets out the Board's requirements in relation to the development of appropriate, adequate and proportionate techniques to establish continued compliance with the rules applicable to the Directive. The policy sets out to:

- Describe the processes in place to conduct the ORSA;
- Detail the frequency of the assessment and the timing for the performance of the ORSA and the circumstances which would trigger the need for a forward-looking assessment of own risks outside of the regular timescales;
- Describe what documentation must be retained for each ORSA and its outcome;
- Establish a process to ensure communication to all relevant staff of the results and conclusions regarding the ORSA, along with a Board approval process; and
- Explain how the results of the ORSA will be used within the business.

#### *B.3.2.2 Capital Planning and Management*

Capital planning combines and leverages a number of planning and risk management processes, including annual budgeting processes, strategic planning, stress testing, material risk identification, risk appetite, liquidity risk management, ORSA and economic capital.

Responsibility for the capital planning process in MICL lies with the MICL Board.

Responsibility for day-to-day execution and ownership of the deliverables for the MICL Board to make Capital Planning decisions lies with the Executive Committee and the Investment and Capital Management Committee.

MICL's capital planning framework incorporates the following key elements:

- An annual Own Risk and Solvency Assessment (ORSA) will be developed and appropriately documented which will be based on MICL's Stochastic Capital Model and will incorporate stress tests and scenario analyses taking into account an appropriate range of adverse circumstances and events relevant to the Company's business and risk profile. This will be reviewed by the MICL Board on an annual basis, or more frequently if the risk profile of the business changes significantly.
- Reverse stress tests to evaluate the circumstances under which MICL's business model may fail. This will be reviewed and approved by the MICL Board on an annual basis as part of the ORSA process.
- Solvency Capital Requirement (SCR) computations will be performed in line with PRA requirements quarterly and compared to the capital position held within a Solvency II balance sheet produced simultaneously. This comparison will be reviewed quarterly by management and shared, as required, with the regulator on a regular basis.
- 3 year forward looking projections of the SCR and Own Funds (to the next 3-year ends) will be prepared at least annually or more frequently as required.
- Details of any planned capital actions, including an assessment of those actions on MICL's capital adequacy and capital quality.



- Contingency plans in the event that sources of capital are no longer viable.

Capital, Financial Forecasting and Scenario Modelling is an outsourced AIL Group function, with the objectives of:

#### **Capital**

- Build and maintain the Capital Projection Models used to assess the forecast capital requirements of each entity
- Support to the Risk Management Functions of AIL Group companies to quantify the risks identified
- Use the model to assist in business decisions e.g., reinsurance purchasing
- Provide input into the financial planning process

#### **Financial Forecasting and Scenario Modelling**

- Build and maintain the Financial Forecast Model
- Provide three-year P&L and Balance Sheet Forecasts for annual business planning process and updated forecasts on a regular basis
- Provide GAAP inputs into the Capital Management Process
- Use the model to assist in business decisions e.g., reinsurance purchasing.

MICL manages its capital position within operating guidelines that have been approved by the MICL Board.

- All capital at the time of implementation of Solvency II has been assessed as to its classification under Articles 71, 73, 75 and 77 of the Commission Delegated Regulation 2015/35.
- If additional capital is required, the various classifications of capital would be considered, and the new capital created in such a way to create the desired output. Management will consider the various capital options on a tier-by-tier basis in making any decisions.
- Current capital items are not considered complex, and management are confident they are aware of the various restrictions and requirements associated with them. Any future capital items would need approval by the MICL Board and any terms attaching thereto would be considered by the relevant members of the management team as appropriate.
- In the event that these operating guidelines are breached, any breach will be reported to the MICL Board with appropriate supporting analysis and a recommended course of action to remedy the breach of MICL's operating guidelines.

Any dividend or capital distribution of any kind requires the approval of the MICL Board. MICL will also obtain any required regulatory approvals prior to the payment of any dividends or similar capital distributions.

The MICL Board's capital management activities will be subject to periodic review by internal audit. The review should include compliance with this framework, the accuracy and completeness of reporting, and other control elements.

During 2022, an independent validation exercise on MICL's Solvency II TPs and standard formula SCR processes was completed. The firm appointed:

- Performed a desktop review of documents provided and assessed against their understanding of the rules and requirements,
- Held walkthroughs to understand the process, approach assumptions, methodology and governance in place,
- Performed a deep dive review into the elements of calculation relating to multi-year contracts which include the premium provision in the TPs and the future premium elements of the SCR,
- Reconciled the key inputs to source for the standard formula calculation,
- Provided a report on key findings.

No material issues in terms of a potential misstatement of the solvency position were identified.





## B.4 Internal control system

MICL's internal control system includes governance arrangements, policies, standards and procedures to ensure that the internal controls throughout the Company are effective and efficient in identifying, preventing, detecting and correcting operational deficiencies and any non-compliance with applicable rules and regulations. The Three Lines of Defence model, described previously, is adopted within the business.

The Compliance Function provides oversight to ensure that the Company and its employees are complying with regulatory requirements and internal policies and procedures. The Compliance Function is implemented based on a compliance strategy, framework and business processes. This includes the development of an annual Risk and Compliance Plan that reflects the Company's highest risks, a compliance monitoring programme, a policy framework, compliance training and an issue management system.

## B.5 Internal Audit function

The mission of the Internal Audit function is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation.

This is achieved by:

- Assessing whether all significant risks are identified and appropriately reported by management and the Risk Management Function to the Board and Executive Management;
- Assessing whether risks are adequately controlled; and
- Challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

Internal Audit is independent from the business and is directly responsible to the Chair of the Audit Committee, with a day-to-day administrative reporting line to the AFSI's Global Chief Audit Officer ("CAO"). Internal Audit has free and unrestricted access to the Chair of the Board, the Chair of the Audit Committee and the Chief Executive Officer.

Those working within Internal Audit are not permitted to perform day-to-day control procedures or take operational responsibility for any part of AmTrust's operations outside Internal Audit. Management is responsible for the establishment and ongoing operation of the internal control system. The Audit Committee reviews the scope and nature of the work performed by Internal Audit, and confirms its independence, objectivity and capability.

## B.6 Actuarial function

The MICL Actuarial Function develops, implements and maintains the actuarial processes/systems that underpin the Company's underwriting activities.

The Actuarial Function has the following main responsibilities:

- Pricing of risks underwritten by the Company;
- Reserving estimates for all classes of business underwritten and monitoring the best estimates against actual experience;
- Developing and maintaining core management information/reporting/analysis on the business underwritten by the Company;
- Providing assistance for the preparation of Business Plans;
- Working with the Risk Management Function to facilitate the implementation of an effective risk management system – including reporting on underwriting performance to the MICL Underwriting Committee and reserve adequacy to the MICL Reserve Committee on a quarterly basis;
- Completing the annual Actuarial Function Report;
- Production of the TPs in accordance with Solvency II principles and ensuring that methodologies and underlying models used are appropriate. Reporting to the Board on the reliability and adequacy of the Technical Provisions calculation;
- Providing inputs into the calculation of the SCR;



- Maintaining an Internal Capital Model for the quantitative analysis requirements of the ORSA and completing the relevant sections of the ORSA document as they relate to the quantitative analysis (note that MICL's Regulatory Capital is determined by the Standard Formula approach);
- Assisting the Finance department in the development and maintenance of robust and repeatable processes surrounding the calculation of regulatory capital requirements from an actuarial and TPs perspective;
- Assisting the Finance department in embedding effective solutions for the timely completion of regulatory reports, including all applicable Quantitative Reporting Templates (QRTs);
- Opining on the overall Underwriting Policy; and
- Opining on the adequacy of Reinsurance arrangements.

The Actuarial Function has representation on each of the Risk and Compliance, Reserve and Underwriting Committees. The Actuarial Function reports into the Group CFO, which maintains the function's independence and reduces the potential for any conflicts of interest from other functions within the business.

With the exception of the SMF20 (Chief Actuary), actuarial staff do not have any Finance, Underwriting, or Claims responsibilities and do not have the ability to create or approve underwriting, claims, or accounting transactions/adjustments, thus creating a segregation of duties within the overall technical underwriting process around activities relating to pricing, performance monitoring, reserving, and analysis.

The position of Chief Actuary (SMF20), under the Senior Managers and Certification Regime, is held by the Group CFO.

## B.7 Outsourcing

The Outsourcing Policy describes the underlying framework for managing, overseeing, and governing third-party supplier relationships and performance.

The Policy details the business rules in relation to selection, due diligence, on-boarding, monitoring and enforcement. Its scope covers:

- Outsourced arrangements: a third-party that performs a process, a service, or an activity, whether directly or by sub-outsourcing, which would otherwise be undertaken by MICL itself.
- Intra-group outsourcing: as above except the third-party performing the service is either MICL's parent or a sibling company (including those outside the UK).
- Material third-party suppliers: while outside the definition of either an outsourced arrangement or intra-group outsourcing, these third-party suppliers are deemed as either high risk or provide a service which is material to the operation of MICL's business.

The key outsourcing relationships MICL has are:

Service Provider	Service Provided
Car Care Plan Limited	Policy Acquisition, Claims Administration, Claims Management and Policy Fulfilment
AmTrust International Limited	Capital Management, Human Resources, Information Technology, Internal Audit and Legal Services
AmTrust Financial Services Inc.	Investment Management

The Chief Operating Officer (COO) has overall responsibility for outsourcing and chairs a quarterly Operational Resilience and Outsourcing Committee. The role of the Committee is to ensure that:



- An up-to-date register of all outsourcing, intra-group outsourcing and material third-party supplier arrangements is maintained
- Service level reporting is being received for all suppliers on this register
- Regular supplier reviews are carried out to address any service issues
- Where corrective action is agreed, this is carried out within an agreed timescale
- Annual due diligence checks are completed for all suppliers on the register and where issues are identified the business takes appropriate steps to address them.

The Committee also approves new outsourcing agreements.

There is also a dedicated Operational Resilience and Outsourcing Manager responsible for day-to-day oversight of outsourcing. This role reports directly to the COO and is the Secretary for the Committee.

Quarterly updates on outsourcing, including a copy of the latest outsourcing register, are provided to the Board.

#### B.8 Any other information

MICL believes its system of governance to be proportionate when considering the nature, scale and complexity of the risks inherent in its business.

# Risk Profile

Section C

---



## C. Risk Profile

### C.1 Underwriting risk

Underwriting risk is the risk that future insurance claims and benefits cannot be covered by premium and/or investment income, or that insurance liabilities are not sufficient, because future claims and expenses differ from the assumptions used in determining the best estimate liability.

MICL's underwriting risk capital requirement is split as follows:

	2022 £'000	2021 £'000
Premium and Reserve Risk	49,415	53,116
Lapse Risk	-	-
Catastrophe Risk	3,559	5,110
Diversification Benefit	(2,551)	(3,608)
<b>Total</b>	<b>50,422</b>	<b>54,618</b>

#### C.1.1 Movement in Underwriting Risk since the previous valuation

There has been a £4.2m decrease in Underwriting Risk between the 2021-year end SCR calculation and the equivalent 2022 calculation. The main reason for the decrease is the whole book quota share reinsurance arrangement put in place mid-2019 with any policies written by the Company after 30 June 2019 being subject to the cession arrangement.

#### C.1.2 Material risk exposures

As at December 2022 MICL had an underwriting risk equivalent to 75.4% (2021: 77.4%) of the undiversified SCR.

MICL underwrote the following main products in 2022:

- MBI - motor warranty and a small number of ancillary products
- GAP
- Alloy/Cosmetic/Tyre (ACT).

MICL also underwrote small volumes of Roadside Assistance (RAS) and Wholesale Floor Plan (WFP) in the UK. The WFP product was discontinued with effect from 1 March 2023.

#### C.1.2.1 Mechanical Breakdown Insurance

MBI is the largest line of business and is a significant driver of the strong underwriting performance, representing 81% (2021: 82%) of the Gross Written Premium at £124 million (2021: £112 million). The UK is MICL's largest market at £116 million (2021: £95 million). Material exposures are:

- Systemic component failure for vehicles of specific manufacturers or vehicles
- Significant dependence on an individual programme or client
- Future regulatory changes which could impact upon the existing business model, including the ability to offer a multi-country solution
- Failure to obtain timely and accurate data
- Failure to price accurately and provide appropriate terms.



MICL's MBI portfolio is a large and stable book of business. Although there have been some minor movements in premium income within individual regions, the geographic footprint remains fundamentally unchanged from 2021. The underlying vehicle mix (brands, models, age mix) also remained largely unchanged over the last 12 months. MICL's policy wordings exclude inherent defects and design failures to prevent significant losses arising from a catastrophic component failure. In addition, the diverse range of vehicles, including the significant variety of brands, models, and ages, means that the risks of any specific component failure impacting significantly upon the underlying profitability of the portfolio is diminished.

In 2022, MICL delivered another underwriting surplus on its MBI book, continuing to reinforce its strong track record in this area and in line with its business plan. The underlying loss ratio has been consistent over many years and generally in the region of 80% to 90% on a combined ratio basis.

There were no regulatory changes in 2022 that had any material impact on the current business. Although significant consideration has been given to assessing the value and utility of the products MICL manufactures.

There were no significant programmes lost in 2022 (2021: None).

Reserve Risk is not material for MICL because MICL's loss reserves are very short tailed with over 90% of claims being paid within a year. MBI business is short tail with claims being made during the policy term or shortly after expiration and loss emergence patterns are quickly established. The average period on risk in the UK for policies written in 2022 was 13 months (2021: 12 months).

#### *C.1.2.2 Guaranteed Asset Protection*

GAP represented approximately 9% of Gross Written Premium in 2022 (2021: 8%). It is currently only underwritten in the UK and all of the business is administered by MICL's sister company, Car Care Plan Limited (CCPL). MICL has access to all transactional data in a timely manner. GWP increased in 2022 by £3.4m (2021: £3.5m decrease) to £14.0m (2021: £10.6m). This increase relates to the easing of the UK lockdowns and improvements in supply chain issues that had impacted new vehicle sales during 2021. The 2022 calendar year produced an underwriting profit due to a combination of factors, the most significant of which were the high residual values on used vehicles, but also as a result of rating actions taken in 2018 and 2019 in particular. The average period on risk in 2022 was 37 months (2021: 38 months).

The risk characteristics of GAP insurance are low frequency, high (relative) value. Severity is higher than warranty but often low compared to motor insurance total loss settlements, and risk premiums are therefore significantly lower than for warranty. In 2022 MICL made an underwriting profit on GAP and, aside from the impact of the pandemic, the performance continued to be influenced by a number of key market trends:

- Number of vehicle miles driven
- Higher retail prices and residuals, impacting severity
- Increasing use of Personal Contract Purchase
- Younger drivers driving newer/higher specification cars, often on the back of attractive PCP offers
- Increasing market share of motor insurers who do not provide a replacement vehicle for new cars in the first year.

As noted above, GAP underwriting performance has been positively impacted by increased residual values on used vehicles. This is due to a lack of supply of new vehicles, caused by the global semi-conductor shortage, which is driving up demand on used vehicles. This has led to a reduction in claims severity. Claims frequency has also reduced, due to the decreased use of vehicles during the pandemic.

#### *C.1.2.3 Alloy Wheel Repair, Cosmetic Repair and Tyre Insurances (ACT)*

ACT represented approximately 9% of Gross Written Premium in 2022 (2021: 9%). It is currently only underwritten in the UK and all of the business is administered by MICL's sister company, Car Care Plan Limited (CCPL). MICL has access to all transactional data in a timely manner. Risk premiums in 2022 were £10.3 million (2021: £9 million). The business is still immature but early years are profitable. The average period on risk in 2021 was 34 months (2021: 32 months).



The distribution channel is predominantly a number of large dealer group programmes and an open market product. The risk characteristics of ACT insurance are high frequency, low value. Product performance is influenced by:

- Type of tyre, e.g., standard or run-flat
- Type of vehicle e.g., prestige brand
- The nature of the vehicle ownership, e.g., PCP's
- The schedule of costs negotiated with the service provider.

### C.1.3 Material Risk concentrations

In the UK, Car Care Plan Group has long-term contracts in place with existing manufacturer partners and dealer groups and is actively seeking to diversify further through the acquisition of new accounts. A number of the manufacturer programmes are large and pose some concentration risk.

Whilst MBI is MICL's biggest product line, the ACT business has grown substantially over the previous years (with the exception of pandemic-impacted years) and has led to better product diversification.

### C.1.4 Material risk mitigation

MICL has a clearly defined risk appetite, together with a documented underwriting process and set of underwriting standards. The underwriting standards set out the characteristics of acceptable risks and the target loss ratios that should be used to achieve the required level of return. Underwriting protocols allow for a high level of interrogation and investigation work to be carried out and timely underwriting and pricing decisions to be made.

MICL mitigates its exposure to high frequency claims on specific components by specifically excluding losses relating to inherent design or manufacturing defect.

A full review of the GAP and ACT portfolios is regularly carried out and appropriate underwriting action taken. There are no material risk concentrations. MICL underwrites a broad portfolio of vehicles and drivers across the UK and products are distributed by a variety of dealers and intermediaries.

The success of these risk mitigation techniques can be demonstrated by the fact that the percentage of claims paid to earned risk premiums has remained within a very narrow band of variance over the last 10 years across the entire MBI portfolio and that timely action has been taken on the GAP portfolio to bring performance into line with KPIs.

In 2022 MICL continued to underwrite ACT, utilising a product and rating structure that meets its risk appetite. MICL receives timely and complete underwriting information and is able to review performance on a regular basis to ensure that these products perform in line with that risk appetite.

MICL performs regular risk-based audits of distributors and utilises comprehensive conduct risk management information to help identify any key risks or issues relation to the distribution of its products.

Over 90% of all business written is currently administered by CCPL and all transactional data is available to MICL. MICL utilises sophisticated data analysis tools to monitor performance and take appropriate and timely action. Throughout 2022, MICL received timely and accurate data from its administrators.

The performance of risk mitigation techniques is monitored by the RCC. Where a particular risk mitigation technique is determined to be ineffective, the RCC will request that alternative techniques are introduced and monitor ongoing effectiveness. The Company fulfils the Prudent Person Principle because it is able to properly understand its material risks.

### C.1.5 Risk sensitivities

As part of its ongoing capital management and as part of the ORSA process, MICL uses capital modelling to establish losses arising from future exposure and the possibility of the combined ratio exceeding 100%. Reverse stress testing is carried out to assess the implications of potential mispricing, to ensure that the Company's capital position cannot be undermined.

In addition, MICL has performed a series of sensitivity tests on its solvency position. These are shown in section C7.1.



### C.1.6 Other material Information

There is no other material information.

## C.2 Market risk

MICL's market risk capital requirement is split as follows:

	2022 £'000	2021 £'000
Concentration Risk	10,059	11,186
Interest Rate Risk	4,987	2,274
Currency Risk	2,627	1,304
Spread Risk	4,139	5,240
Diversification Benefit	(9,081)	(7,184)
<b>Total</b>	<b>12,731</b>	<b>12,821</b>

### C.2.1 Material risk exposures

Market risk in MICL is the risk of adverse financial impact resulting directly from fluctuations in interest rates, credit spreads, foreign currency exchange rates, and concentrations of assets.

As at December 31st, 2022, market risk comprised 19.0% (2021: 18.2%) of the undiversified SCR.

The Company's exposure to interest rate risk arises predominantly from fluctuations in the Company's bond portfolio and the Company's liabilities.

The Company's exposure to spread risk arises due to sensitivities in the value of investments and loans to volatility of credit spreads.

As at December 31st, 2022, investments are predominantly held in high quality bonds with an overall weighted average portfolio rating of A+ and a weighted average duration that is broadly in line with the duration of the liabilities.

The Company continues to hold approximately one third of its bond portfolio in government bonds to materially reduce concentration and spread risk exposures.

The Company entered into an intercompany loan, which remains outstanding at the end of the year. During the year £1.35m (2021: £2.75m) of loan principal was repaid. The loan was established for the group to fund the acquisition of Dent Wizard Ventures Limited, a cosmetic and alloy wheel insurance repairer, which provided the group with end-to-end control of the customer experience. The Company believes that sufficient liquidity and dividend capacity exists within the group to fund the loan and ensure its recoverability.

### C.2.2 Material risk concentrations

MICL's exposure to concentration risk arises as a result of positions taken in the investment portfolio, loans to other entities in the AmTrust Group and its cash holdings.

The exposure to concentration risk has decreased in the year due to a partial repayment of the loan principal and small shift in the bond portfolio towards government bonds. The corporate bond portfolio is sufficiently diversified that no single exposure constitutes a material concentration risk.





In addition, MICL operates internationally and, as a result, is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Approximately 8% (2021: 16%) of the Company's premium income arises in currencies other than sterling, and 5% (2021: 4%) of the Company's own funds are denominated in a variety of foreign currencies, the largest of which are Euro and Turkish Lira (2021: Euro and Chinese Yuan).

### C.2.3 Material risk mitigation

The MICL Board is responsible for monitoring investment strategy and performance, with formal reporting against a comprehensive set of investment guidelines on a quarterly basis. An Investment and Capital Management Committee was established in late 2020. At least annually, stress (where the risk factor is assumed to vary) and scenario testing (where combinations of risk factors are assumed to vary) is used to assess the market risk under stressed conditions.

There has been an increase in interest rate risk mainly over the second half of the year as Bank of England base rates, and risk-free rates have risen significantly above rates experienced over the last several years. The Company has a detailed set of investment guidelines to mitigate against significant mismatches between the asset and liability durations. These restrict the average duration of the portfolio in relation to the average liability duration.

MICL monitors currency risk through monthly management reporting information.

The Company has a detailed set of investment guidelines to mitigate exposure to any one entity. These incorporate restrictions on the maximum amounts that can be invested in a single entity.

The Company manages currency risk by aiming to maintain sufficient assets in local currency to meet local currency liabilities. Foreign exchange movements are monitored and managed in monthly management information.

A regular risk identification process is carried out by the RCC, which includes the consideration of emerging risks. Key risks, including key market risks, are brought to the attention of the RCC and mitigation strategies applied where appropriate.

Risk appetites have been established for market risks and these are reviewed and updated by the RCC on a quarterly basis with any breaches being reported as necessary with mitigating actions developed and implemented.

The Company considers the Prudent Person Principle in monitoring the interest rate risk and how the assets match the expected payment profile of the Company's TPs. A maximum duration limit is imposed on the bond portfolio to ensure that the interest rate exposure is broadly in line with the liability profile.

As noted above the bond portfolio primarily consists of liquid, high quality bonds with an average rating of A+, ranging from BBB- to AAA and with modified durations of between 0.03 and 8.3 years.

There are no investments in derivative instruments.

The RCC monitors the performance of risk mitigation techniques. Where a particular risk mitigation technique is determined to be ineffective, the RCC will request that alternative techniques are introduced and monitor ongoing effectiveness.

### C.2.4 Risk sensitivities

MICL carries out stress and scenario testing at least annually as part of its ORSA process, which includes stress testing for interest rate risk. A stochastic capital model, which reads in economic data from an Economic Scenario Generator for each simulation, is used to calculate the Company's asset portfolio. In addition, through the Company's reverse stress testing process, more severe market risk shocks are tested – stresses by rating, sector and interest rate shocks. This showed that only a combination of severe interest rate shock and unprecedented cross-sector failure would result in a significant impact on the Company's ability to carry on business.



Exchange rate risk is covered by the modelling process but using a deterministic method to analyse the maximum movements in exchange rates to calculate the resulting loss. The results of this testing showed that the Company can withstand severe exchange rate risk shocks.

In addition, MICL has performed a series of sensitivity tests on its solvency position. These are shown in section C.7.1.

#### C.2.5 Other Material Information

There is no other material information.

### C.3 Credit risk

MICL's credit risk capital requirement is split as follows:

	2022	2021
	£'000	£'000
Type 1	2,211	1,882
Type 2	1,744	1,409
Diversification Benefit	(252)	(208)
<b>Total</b>	<b>3,704</b>	<b>3,084</b>

#### C.3.1 Material risk exposures

Credit risk in the Company is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company.

As at December 31<sup>st</sup>, 2022, credit risk in the form of counterparty default risk, comprised 5.5% (2021: 4.4%) of the undiversified SCR.

There have been no material changes in credit risk over the course of the year.

#### C.3.2 Material risk concentrations

In MICL, the main area of credit risk is in relation to amounts due from insurance intermediaries and amounts held with banks and other financial institutions.

Reinsurance counterparty credit risk is monitored in the Company's quarterly Underwriting Committee and Board meetings. Credit rating and publicly available financial information are used to assess credit risks.

Credit risk is also identified, assessed and monitored through the Company's risk register.

#### C.3.3 Material risk mitigation

Credit risk from insurance contract holders and insurance intermediaries is mitigated by:

- Implementing alternative mitigation measures such as "pay as paid" clauses in the contract.
- The fact that MICL's main insurance intermediary is a connected party (CCPL, MICL's sister company).
- Carrying out appropriate due diligence on the financial stability of counterparties prior to entering business relationships.

Credit risk with its reinsurers is mitigated by only using rated reinsurers with very high Standard & Poor's (A minimum) or A M Best (A minus minimum) credit ratings and using a select number of reinsurers to mitigate contagion risk. Credit ratings are monitored on an on-going basis and reviewed at the Underwriting Committee on a quarterly basis. Where the Company uses reinsurers without credit ratings, credit risk is monitored through review of financial statements and Solvency Coverage Ratios.



MICL generally only uses banks with a minimum credit rating of A.

The Company considers the Prudent Person Principle in monitoring credit risk. Counterparties are selected by taking into account the credit rating and reputation of each entity.

The Risk and Compliance Committee monitors the performance of risk mitigation techniques. Where a particular risk mitigation technique is determined to be ineffective, the Risk and Compliance Committee will request that alternative techniques are introduced and monitor ongoing effectiveness.

#### C.3.4 Risk sensitives

At least annually, MICL carries out stress and scenario testing as part of its ORSA process, which includes stress testing for credit risk. The Company's stochastic capital model recreates the reinsurance programme and then simulates the transition between each reinsurance rating for all future calendar periods. It then calculates the probability that the reinsurer will default in that period.

The fact that MICL only uses reinsurers with high credit ratings and that the excess of loss reinsurance retention is at a reasonably high-level means that the probability of default is less than a 1 in 200-year event.

In addition, MICL has performed a series of sensitivity tests on its solvency position.

#### C.3.5 Other material information

There is no other material information.

### C.4 Liquidity risk

#### C.4.1 Material risk exposures

Liquidity risk in the Company is the risk of not being able to make payments as they become due because there are insufficient assets in cash form.

The Company has limited liquidity risk as 92% (2021:89%) of its invested assets are held in cash in bank accounts and in relatively liquid high-quality bonds. The remaining 8% (2021: 11%) is held in a loan to another entity within the AmTrust Group.

#### C.4.2 Material risk concentrations

MICL's liquidity risk exposure is concentrated in financial assets (bonds), loans to other entities in the AmTrust Group and reinsurance contracts.

#### C.4.3 Material risk mitigation

Asset-liability duration matching profiles and tolerance limits as agreed by the Board are monitored and reported to the Risk and Compliance Committee and the Board on a quarterly basis.

There has been no material change to liquidity risk during the year. The Company considers that the invested assets are sufficiently liquid to meet the ongoing outwards cash flows needs.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a liquidity risk policy and through the development of its capital and liquidity plan, which identifies available financing options and which, is reviewed on an annual basis.

In addition, MICL mitigates liquidity risk by developing short term cash flow forecasts and incorporating an appropriate level of buffer.

Premium payments are monitored regularly to ensure they are received within the terms of credit.

A Risk Appetite has been established for liquidity risks and this is reviewed and updated by the Risk and Compliance Committee on a quarterly basis with breaches being reported as necessary with mitigating actions developed and implemented.

The invested assets are prudently invested taking into account the liquidity requirements of the business and are held in such a way as to properly match the terms or duration of the liability profile.



The Risk and Compliance Committee monitors the performance of risk mitigation techniques. Where a particular risk mitigation technique is determined to be ineffective, the Risk and Compliance Committee will request that alternative techniques are introduced and monitor ongoing effectiveness.

#### C.4.4 Expected profit in future premiums (EPIFP)

The Company calculates EPIFP by projecting the expected future profits directly, using the insurance receivables not yet due at the reporting date. Due to the MICL business model, monies for policies underwritten are received up-front, and it has been concluded that there is no material Bound but Not Incepted (BBNI) exposure.

The expected profits included in future premiums as calculated in accordance with Article 260(2) for 2022 is £0.5m (2021: £1.1m).

#### C.4.5 Risk sensitivities

The Company carries out stress and scenario testing as part of the ORSA process, which includes stress testing for liquidity risk.

#### C.4.6 Other material information

There is no other material information.

### C.5 Operational risk

Operational risk is the risk of losses resulting from inadequate or failing internal processes, persons and systems, or from external events (including legal risk). The main areas where operational risks are incurred are operations, IT, outsourcing, integrity and legal issues.

MICL's operational risk capital requirement is split as follows:

	2022	2021
	£'000	£'000
Operational Risk	4,376	3,999

#### C.5.1 Material risk exposures

Whilst operational risks exist within MICL, this is not a risk area determined by the RCC to be material due to the level of risk mitigation controls in place. Operational risk is identified, assessed and monitored by the RCC with oversight from the Board, and recorded on the Risk Register.

A key area of operational risk relates to Outsourcing risk/Group risk. MICL outsources the majority of its policy acquisition, claims management and claims administration processing to its sister company CCPL; its Capital Management, IT, HR and Legal functions to its EU parent company AIL; and its investment management to a Group company, AmTrust Financial Services Inc.

There are various operational risks, which are associated with MICL's outsourced functions, including; claims leakage risk, regulatory risk, cyber risk, data security risk, mis-selling risk and IT infrastructure risk.

Another key operational risk relates to data quality. Significant emphasis is placed on mitigating the risks associated with data quality to ensure that the data within the business complies with the requirements surrounding completeness and accuracy. Board and Audit Committee attention has identified that greater assurance is required surrounding some of the key IT operational risks, most significantly cyber security and data security.

In 2022, operational risks stemming from the worldwide pandemic had significantly less impact on MICL. Whilst the pandemic undoubtedly had an impact within the business and the operational risks the business faced in previous years, proactive management and mitigation of these risks allowed for business operations to continue



effectively. Resourcing continued to be a key operational risk in 2022. As with many businesses, MICL has been impacted by a surge in demand for skilled workers in insurance and technology roles.

In 2021, the Company completed an assessment of increased risks arising from the Russian invasion of Ukraine. The increase in cyber risk posed by the political tensions between Russia and the UK and USA has been the key change to operational risk. AmTrust Group IT Security continue their increased focus surrounding cyber risk and are providing regular feedback to the business and its employees on the steps taken. The network team has been proactively working to block Russian IP addresses at Amtrust's perimeter and has also taken proactive measures in endpoint protection systems based on the cyber intelligence feeds MICL subscribe to.

#### C.5.2 Material risk concentrations

There are no material operational risk concentrations.

#### C.5.3 Material risk mitigation

In addition to the standard risk management and mitigation techniques used within the business, the following additional risk mitigation techniques are in place for the Key Operational Risks identified in C.5.1 above:

**Outsourcing:** The risks relating to outsourcing are mitigated through the maintenance of an Outsourcing Policy and the requirement to complete on-going due diligence and regular performance reviews and audits on outsourced providers. In 2022, MICL also began work on Operational Resilience which will strengthen its position and improve risk mitigation.

**Data:** MICL continues to place significant focus on data accuracy and governance, with further resource utilised in 2022.

**Human Resources:** To mitigate the impact of the current resourcing issues faced by many firms in the Financial Services sector, MICL has enhanced its internal development programme. These enhancements are designed to allow a greater number of internal employees of the Car Care Plan Group to develop the skills, knowledge and understanding, with the goal of undertaking key roles within the business.

The RCC monitors the performance of risk mitigation techniques. Where a particular risk mitigation technique is determined to be ineffective, the RCC will request that alternative techniques are introduced and monitor ongoing effectiveness.

#### C.5.4 Risk sensitivities

The Company carries out stress and scenario testing as part of the ORSA process which includes stress testing for operational risk.

In addition, MICL has performed a series of sensitivity tests on its solvency position. These are shown in section C7.1.

#### C.5.5 Other material information

Operational Losses, arising from the failure of people, processes or systems are recorded on the Compliance and Regulatory Issues List and reported to the RCC on, at least, a quarterly basis. This allows the RCC to assess the actual losses arising from Operational Risk, implementing appropriate mitigation techniques as appropriate.

### C.6 Other material risks

#### C.6.1 Legal and Regulatory risks

This is the risk of non-compliance with regulation and legislation.

MICL does not seek to take on legal and regulatory risk in order to generate a return. However, the Company recognises that some degree of legal and regulatory risk is an unavoidable consequence of remaining in business. MICL therefore seeks to mitigate this risk through corporate governance and internal control mechanisms. Awareness of the risks and the Company's control mechanisms are maintained through its policies and procedures framework and training programmes.

The introduction of the New Consumer Duty poses a risk to MICL due to the paradigm shift towards customer outcomes, but the Company believes that the consumer focussed culture already embedded within the business



is beneficial in mitigating this risk. Significant focus has been given to the implementation of new requirements, with key challenges stemming from the evaluation of distribution channels and product value and utility. The implementation plan is on schedule, and the new Duty is expected to be embedded into Company's business as usual activities by 31<sup>st</sup> July 2023.

#### C.6.2 Conduct Risk

This is the risk associated to the way organisations, and their staff, relate to customers and the wider financial markets.

MICL has a defined risk appetite for Conduct Risk and monitors its products' performance on an ongoing basis to ensure suitability and value to the target market. MICL also monitors performance within the activities undertaken by the claims handlers, distributors and other service providers of its products; measuring this performance against Board approved risk appetites.

A key risk that MICL faces relates to the high conduct risk within its distribution channels, particularly relating to GAP and ACT products. Significant focus is given to mitigating these conduct risks, with new conduct risk management information implemented to allow quick and effective monitoring of any distributors that may pose significant regulatory risks to MICL.

Another key conduct risk that MICL faces relates to potential reduced value and utility of GAP. This is due to the reduced claims severity and somewhat due to the decreased claims frequency. The global chip shortages and supply chain issues stemming from the pandemic, exacerbated by Russian invasion of Ukraine, had a knock-on effect on the production of new vehicles. Due to the decreased supply of new vehicles, the demand for used vehicles increased. This resulted in higher used vehicle prices (residual values), which had impacted on the average GAP claims settlement. Lockdowns, hybrid working structures and increased cost of fuel also contributed to reduced vehicle usage, which impacted claims frequencies. To improve the current value and utility of GAP, MICL has introduced measures provide further value for those customers most affected by increased residual values. MICL expects that there will be a correction of residual values in the short-medium term.

#### C.6.3 Strategic risk

This is the risk arising from failure to sufficiently define the direction and objectives of the entity, together with the resourcing and monitoring of the achievement of the same.

MICL has a well-developed business planning process, and the Board approves its business plans. The business plans are also used in the Own Risk and Solvency Assessment (ORSA) process.

#### C.6.4 Governance risk

This is the risk arising from the failure to demonstrate independent and proper stewardship of the affairs of the Company in order to safeguard the assets of the Company's shareholders and the overall interests of its stakeholders.

The Company regards a strong governance framework to be vital in the achieving its objectives as well as providing transparency and accountability to its various stakeholders. A system of internal control and governance has been developed using the "Three Lines of Defence" model, which the Board deems to be appropriate to the scale and nature of MICL's activities and risks.

#### C.6.5 Group risks

This is the risk arising from other parts of its group, through parental influence or direct contagion.

MICL maintains a good relationship with its ultimate parent and expects that, at all times, it will remain suitably appraised of all of the material risks within the group that may, if crystallised, have negative impact upon the business strategy and/or cause detriment to its customers.

#### C.6.6 Solvency risk

This is the risk that the entity fails to maintain adequate levels of capital resources of sufficient quality and quantity in order to carry out its business objectives and in order to meet all domestic and international regulatory considerations regarding the capital resource requirements.

MICL ensures it is solvent at all times through monitoring of solvency position; management accounts; solvency forecasting in ORSA and prior to any strategic decision making.



### C.6.7 Climate Change

The signs of climate change are increasing as the frequency of adverse weather events are becoming more common worldwide. Due to MICL's product types, the overall insurance risk from these types of natural catastrophe is currently assessed as low, but this assessment is likely to change in the mid-term making it important for MICL to consider its longer-term pricing strategies and how climate change may influence future claims performance.

The current "low risk" assessment is based on the particular profile of risks underwritten and administered within MICL. The business written by MICL consists mainly of individual policies for private vehicle owners. These are widely distributed geographically and of low individual value as far as potential claim cost is concerned. Because of this, and also because of the details of the cover itself, these are not generally very vulnerable to adverse changes in climate.

Some of MICL's products are more prone to increases in high-severity weather events such as storm and flood. Whilst it is evident that weather patterns have been changing for some years, it is unlikely that this will have a significant adverse impact on MICL's profitability or financial security in the short term.

Another contributing factor to the low-risk rating in the short term is the decision to stop underwriting WFP, which previously has been assessed to have the greatest exposure to climate change out of MICL's product range. The WFP business terminated on 1<sup>st</sup> March 2023, further reducing the risk in the short term.

Indirectly, the global reaction in tackling climate change will have an impact on MICL's core business as motor manufacturers move from traditional Internal Combustion Engines to Electric Vehicles (EVs). MICL is proactively introducing EV warranty products to ensure any risks associated with this change is appropriately mitigated within the business.

### C.6.8 Cyber

This is the risk of financial loss, disruption or damage to the reputation of an organisation resulting from the failure of its information technology systems. MICL has identified cyber risk as a key area of focus within the business and continue to work with outsourced IT providers to ensure suitable controls are in place to mitigate this risk.

As part of the analysis of the risks associated with the Russian invasion of Ukraine, MICL identified increased cyber security risk. As a result, in 2022, MICL conducted successful DR tests on its main operating system and began work on Operational Resilience.

### C.6.9 Escalation of the Russian Invasion of Ukraine

The Russian invasion of Ukraine has had, and will continue to have, an impact on MICL's Business. Russia's actions contributed to inflationary pressures and supply chain issues across the globe, including the UK. Although the risks that stem from the Russian invasion have mostly materialised, a prolonged conflict or an escalation of the conflict may further deteriorate global macroeconomic conditions and adversely impact MICL.

The materialised risks stemming from the Russian Invasion of Ukraine are now treated as individual risks. These are mentioned throughout section C and include:

- inflation;
- the cost-of-living crisis;
- supply chain issues leading to decreased volume of new car sales;
- increased prices of used vehicles; and
- increased cyber security threats.

The sanctions imposed on Russia omitted any restrictions on gas supply due to the extent of the adverse impact it would have on Europe, where over 30% of the EU gas supply comes from Russia. Further escalation, whether in the severity of the offensive or widening of the conflict, could force world leaders to further extend their sanctions, creating unprecedented global economic detriment causing further inflationary pressures and supply chain issues.



#### C.6.10 Other Material Risk Concentrations

MICL is a participating employer of the group defined benefit scheme, which is primarily sponsored by MICL's immediate parent company. The company has followed the guidance in Supervisory Statement (SS 5/15) and there is sufficient unencumbered capital held elsewhere in the group to support the pension scheme and as such the pension scheme is not recognised in the Company Solvency II balance sheet when determining the Standard Formula SCR.

#### C.6.11 Other Material Risk Sensitivities

The Company carries out stress and scenario testing as part of the ORSA process, which includes stress testing for operational risk.

In addition, MICL has performed a series of sensitivity tests on its solvency position. These are shown in section C7.1.

### C.7 Any other information

#### C.7.1 Risk sensitivities

MICL has performed sensitivity tests to show the impact on SCR and solvency coverage by changing the assumptions associated with each risk type in the SCR calculation. These are independent stresses to individual risks, although in practice risks may occur in combination, but the impact would differ from the combination of impacts of the individual stresses. It has been assumed that the current quota share arrangement, which MICL renewed on 1<sup>st</sup> July 2022, continues into the future on the same terms. The impacts of each stress are non-linear, and the results shown should not be used to extrapolate the effects of larger or smaller changes in the assumptions.

MICL has performed the following sensitivity tests on its solvency position.

Risk category	Test	SCR/Change (£m)		Own Funds/Change (£m)		Solvency Ratio/Change	
Underwriting	25% increase in volume of GWP in next 12 months	56.0	0.9	86.5	0.1	154.1%	-2.7%
Underwriting	25% decrease in volume of GWP in next 12 months	54.2	(0.9)	86.3	(0.1)	159.6%	2.8%
Underwriting	25% increase in Claims provisions	56.7	1.6	82.0	(4.4)	144.7%	-12.1%
Underwriting	25% decrease in Claims provisions	53.6	(1.5)	90.7	4.3	169.3%	12.5%
Market	25% increase in asset durations	55.5	0.4	86.4	-	155.7%	-1.1%
Market	25% decrease in asset durations	54.7	(0.4)	86.4	-	158.0%	1.2%
Market	10% increase in asset concentrations	58.4	3.3	86.4	-	148.0%	-8.8%
Market	Yield Curve Upshock	54.4	(0.7)	82.0	(4.4)	150.7%	-6.2%
Credit	Fall in rating of one credit step for three largest insurers	55.3	0.2	86.4	(0.0)	156.3%	-0.5%
Operational	50% increase in TP expenses	55.2	0.1	83.3	(3.1)	151.0%	-5.8%

The risk with the most material effect on the SCR is Market Risk, in particular to an increase in the concentration of assets. The Company closely monitors its portfolio of assets against its investment guidelines throughout the year.





The tests also show a material sensitivity, in terms of solvency ratio, to increases and decreases in claims provisions. The Reserve Committee is responsible for ensuring adequate and reasonable reserves are in place, as described in section B.1.1.

# Valuation for Solvency Purposes

## Section D

---



## D. Valuation for Solvency Purposes

The following is a summary level Solvency II Balance Sheet:

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Notes	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
		£'000	£'000	£'000	£'000
<b>Assets</b>					
Investments					
Bonds	D 1.1				
Government bonds		118,530	427	-	118,958
Corporate bonds		58,633	862	-	59,495
Loans and mortgages	D 1.2	15,900	178	608	16,686
Reinsurance recoverables	D 1.3	81,280	25,463	(44,733)	62,009
Deposits to cedants	D 1.4	1,666	-	(104)	1,561
Insurance & intermediaries receivables	D 1.5	25,775	(21,871)	-	3,904
Reinsurance receivables	D 1.5	7,545	(3,592)	-	3,954
Receivables (trade, not insurance)	D 1.5	1,311	(69)	-	1,242
Cash and cash equivalents	D 1.6	13,882	-	-	13,882
Any other assets	D 1.6	1,467	(1,467)	-	-
Deferred acquisition costs	D 1.7	32,624	-	(32,624)	-
<b>Total Assets</b>		<b>358,613</b>	<b>(69)</b>	<b>(76,853)</b>	<b>281,691</b>
<b>Liabilities</b>					
Technical provisions – non-life	D 2	178,546	32,072	(88,102)	122,517
Deposits from reinsurers	D 3.2	-	41,303	-	41,303
Deferred tax liabilities	D 3.1	-	-	6,280	6,280
Insurance & intermediaries payables	D 3.2	19,597	(16,567)	-	3,029
Reinsurance payables	D 3.2	62,167	(56,877)	-	5,290
Payables (trade, not insurance)	D 3.3	10,862	-	-	10,862
Any other liabilities	D 3.3	13,872	-	(13,872)	-
<b>Total Liabilities</b>		<b>285,044</b>	<b>(69)</b>	<b>(95,694)</b>	<b>189,281</b>
<b>Excess of assets over liabilities</b>		<b>73,569</b>	<b>-</b>	<b>18,841</b>	<b>92,410</b>

### D.1 Assets

#### D.1.1 Investments

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Government bonds	118,530	427	-	118,958
Corporate bonds	58,633	862	-	59,495
<b>Total Investments</b>	<b>177,163</b>	<b>1,289</b>	<b>-</b>	<b>178,453</b>

The UK GAAP financial statements balance for investments, which is made up entirely of bonds, is the market value only. The related accrued interest is disclosed under any other assets under UK GAAP but is reclassified on



the Solvency II balance sheet to be included in the value reported under bonds. The invested assets are all quoted instruments in active markets and therefore the market price at the reporting date has been applied. The bonds are all directly held by the Company.

#### D.1.2 Loans and mortgages

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Loans and mortgages	15,900	178	608	16,686

Loans and mortgages are measured at fair value using the income approach though the discounted cash flow method for the purpose of Solvency II. A valuation adjustment may be required from UK GAAP basis.

The Company's discounted cash flow method relies on the use of unobservable market inputs to reflect the assumptions market participants would use in pricing the asset or liability based on sources independent of the entity pricing the asset or liability. Unobservable inputs reflect the Company's own assumptions about the assumptions market participants use in pricing the asset or liability (including assumptions about risk inherent in the asset or liability or inherent in the model used to estimate the price of the asset or liability).

Unobservable inputs are developed based on the best information available in the circumstances, which might include the Company's own data and should consider all information about market participant assumptions that is reasonably available. In developing unobservable inputs, it does not need to undertake all possible efforts to obtain information about market participant assumptions in pricing the asset or liability.

The Company's own data used to develop unobservable inputs is adjusted if information indicating that market participants would use different assumptions is reasonably available without undue cost and effort. The unobservable valuation inputs are updated only when corroborated by evidence such as market transactions.

There was a valuation adjustment at the balance sheet date. The related accrued interest is disclosed under any other assets under UK GAAP but is re-classed on the Solvency II balance sheet to be included in the value reported under loans and mortgages.

#### D.1.3 Reinsurance recoverables

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Reinsurance recoverables	81,280	25,463	(44,733)	62,009

The reclassification of balances and valuation differences of this item are covered in the valuation of technical provisions in section D.2.

#### D.1.4 Deposits to cedants

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Deposits to cedants	1,666	-	(104)	1,561

Deposits to cedants are valued at the best estimate of the recoverable amount and are discounted where it is expected that the balance will be recovered after more than one year.



#### D.1.5 Insurance and intermediaries receivables, reinsurance receivables & non-insurance trade receivables

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Insurance & intermediaries receivables	25,775	(21,871)	-	3,904
Reinsurance receivables	7,545	(3,592)	-	3,954
Receivables (trade, not insurance)	1,311	(69)	-	1,242

Receivables from intermediaries, ceding insurers and reinsurers where the amounts are past contractual payment terms are valued at the best estimate of the recoverable amount, and are discounted where it is expected that the balance will be recovered after more than one year. Where the amounts are not past contractual payment terms, i.e., not yet due, they are transferred to technical provisions.

#### D.1.6 Cash and other assets

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Cash and cash equivalents	13,882	-	-	13,882
Any other assets, not elsewhere shown	1,467	(1,467)	-	-

Cash balances are valued at the amount held at the period end, translated using year end exchange rates where appropriate. There is no valuation difference between the two bases.

Any other assets are valued at the best estimate of the recoverable amount and are discounted where it is expected that the balance will be recovered after more than one year. The statutory accounts value includes accrued interest in respect of the Company's investments in bonds and loans, which are reclassified under Solvency II to be included within the value of bonds, and loans and mortgages respectively.

#### D.1.7 Deferred acquisition costs

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Deferred acquisition costs	32,624	-	(32,624)	-

Under Solvency II deferred acquisition costs are valued at nil, with appropriate associated adjustments made to the calculation of TPs.

### D.2 Technical Provisions

#### D.2.1 Technical Provisions

The value of MICL's Solvency II TPs at 31 December 2022 was £60.5m (2021: £65.6m). The table below shows how the TPs are broken down by Solvency II class of business:



Solvency II Class of Business	Best Estimate Technical Provisions	Solvency II Risk Margin	Solvency II Value	Reinsurance Recoverable	Net Technical Provisions
	£'000	£'000	£'000	£'000	£'000
Other motor insurance	12,780	362	13,142	6,801	6,341
Assistance	349	10	359	188	170
Miscellaneous financial loss	106,011	3,005	109,016	55,020	53,996
<b>Total</b>	<b>119,140</b>	<b>3,377</b>	<b>122,517</b>	<b>62,009</b>	<b>60,508</b>

The Company values its TPs as the sum of a best estimate and a Risk Margin and in accordance with the methods prescribed by the Solvency II Directive using standard actuarial techniques.

#### D.2.2 Solvency II Technical Provisions Methodology

There are significant differences in the way TPs are required to be calculated under Solvency II in comparison with the GAAP provisions. Under Solvency II Claims Provisions and Premium Provisions must be calculated separately on a best estimate basis with no explicit margins included. They should include an allowance for all possible future cash flows, not just the foreseeable ones and include provisions for both allocated and unallocated expenses associated with the business written. Cash inflows, such as future premiums and recoveries from reinsurers are also included in the calculation.

There is a requirement to discount the TPs using risk free yield curves for each currency, which means cash flows of the TPs have to be generated.

Finally, a Risk Margin, which reflects the uncertainty in the cash flows as the TPs run off, is added to the best estimate, which must be calculated using the prescribed cost of capital approach.

More details on the specific methodologies used by MICL in the calculation of its TPs and how they differ from the statutory provisions are provided in the sections that follow.

#### D.2.3 Segmentation

The Solvency II Directive requires that firms evaluate their TPs by Solvency II class of business as a minimum. MICL segments its business further in accordance with which external claims administrator handles the claims, the product type and the country and currency in which the claims originate. For the Premium Provision calculations, the MBI business is further segmented into more homogeneous groups before the calculations are performed.

#### D.2.4 Claims Cash flows

The largest proportion of MICL's TPs are made up of the future claims payments. As required by Solvency II, these are calculated separately for the Claims Provisions and Premium Provisions; the distinction being payments resulting from events before and after the valuation date respectively.

Claims Provisions are calculated on a gross basis from accident year triangles using a combination of standard actuarial techniques, namely the Chain Ladder, Cape Cod and Expected Loss Ratio approaches. Cash flows are generated from the payment patterns from the Chain Ladder calculations.

Premium Provisions are also calculated on a gross basis from underwriting year triangles using the same set of standard actuarial techniques used for the Claims Provisions, supplemented by the Average Cost Per Claim method. Cash flows are generated from the underwriting year triangles using the Chain Ladder analysis performed.

There is significant uncertainty in the future claims cash flows as the probability a claim will occur, the timing of the claim, the speed at which it is reported and paid and the ultimate amount that becomes payable are all unknown. Therefore, expert judgement is required in the selection of the ultimate claims amounts for the actuarial calculations performed. Selections are made on a Solvency II best estimate basis and are backtested against previous estimates. This feedback loop aids more accurate projections in future estimates of the TPs.



### D.2.5 Reinsurance

MICL allows for the recent quota share, along with the two MBI programmes and the GAP products in the Miscellaneous Financial Loss class of business that have an outward quota share arrangement, by repeating the Claims Provisions and Premium Provisions calculations using net of reinsurance triangles. A check is made that the net ultimate claim amounts are not higher than the gross ultimate claim amounts. The difference between the gross and net claim amounts gives the best estimate of the reinsurance recoveries.

An assessment is made for reinsurance bad debt, using the simplified approach described in DA Article 61. Due to the short tailed nature of the liabilities, and the high rating of the reinsurance providers, the reinsurance bad debt is minimal, and the additional provision held is under £10k.

On the Other Motor Insurance Class, MICL has an Excess of Loss reinsurance programme in place with a relatively high retention such that on a best estimate basis MICL would not expect to make a claim. There are no outstanding claims on this reinsurance programme at the valuation date.

### D.2.6 Discounting

All TP cash flows are required to be discounted using the Risk-Free Discount Rates produced by the PRA by currency. Where Risk Free Discount Rates are not available from the PRA the European Insurance and Occupational Pensions Authority (EIOPA) Risk Free Discount Rates are used. As MICL writes business in multiple currencies, the TPs are segmented in such a way to enable the cash flows to be discounted using the appropriate currency discount rate.

### D.2.7 Events Not in Data (ENID)

Solvency II TPs are required to include an allowance for all possible future events. This includes provisions for claims that may have never occurred in the claims history and so standard actuarial techniques will not automatically allow for such events. Estimation of the amount of ENID is not a straightforward process and there are significant expert judgements in the selection of the amount to include in the provisions.

MICL uses a stochastic bootstrapping method to generate a distribution of future claims provisions by class of business. A truncated distribution is selected from what is assumed to be the full distribution and the difference in the mean of the two distributions is considered to be the required ENID loading. 2022 ENID is £1.2m (2021: £1.4m).

### D.2.8 Future Premium Cash flows

MICL receives all of its premiums at the time of the commencement of the policy or shortly afterwards so there are no material future premium cash flows to take account of in the TPs in this respect. For the inward reinsurance business that MICL accepts, any outstanding premium that is not past due is transferred into the TPs. Any premium that is past due is retained on the SII balance sheet as Insurance and intermediaries receivables. The outward reinsurance premium is netted off against the reinsurance recoveries and the resulting amount included in the TP cash flows.

### D.2.9 Expenses

#### D.2.9.1 Allocated Loss Adjustment Expenses (ALAE)

MICL outsources all of its claims handling to third parties, the majority of which is done by its sister company CCPL. As a result, no allowance for claims handling has been made in the TPs.

MICL does have some ALAE in the form of claim assessment costs for some claims. These are generally small in relation to the size of the claim and are included as part of the claims costs on an individual claim basis, therefore an allowance for them is included in the actuarial projections.

#### D.2.9.2 Unallocated Loss Adjustment Expenses (ULAE)

ULAE is taken from the business plan, the cash flows associated with the ULAE are required for discounting and are assumed to be in proportion to the run-off of the TPs.

### D.2.10 Bound but not incepted (BBNI) business

Using a look-through approach MICL assumes that there is no material BBNI business to take into account in its TPs. MICL does write policies which have some form of delay before inception for which it receives the premium



in advance of the inception of the policy. These policies are included within the Premium Provisions along with those policies which have incepted but still have a period of unexpired risk.

#### D.2.11 Risk Margin

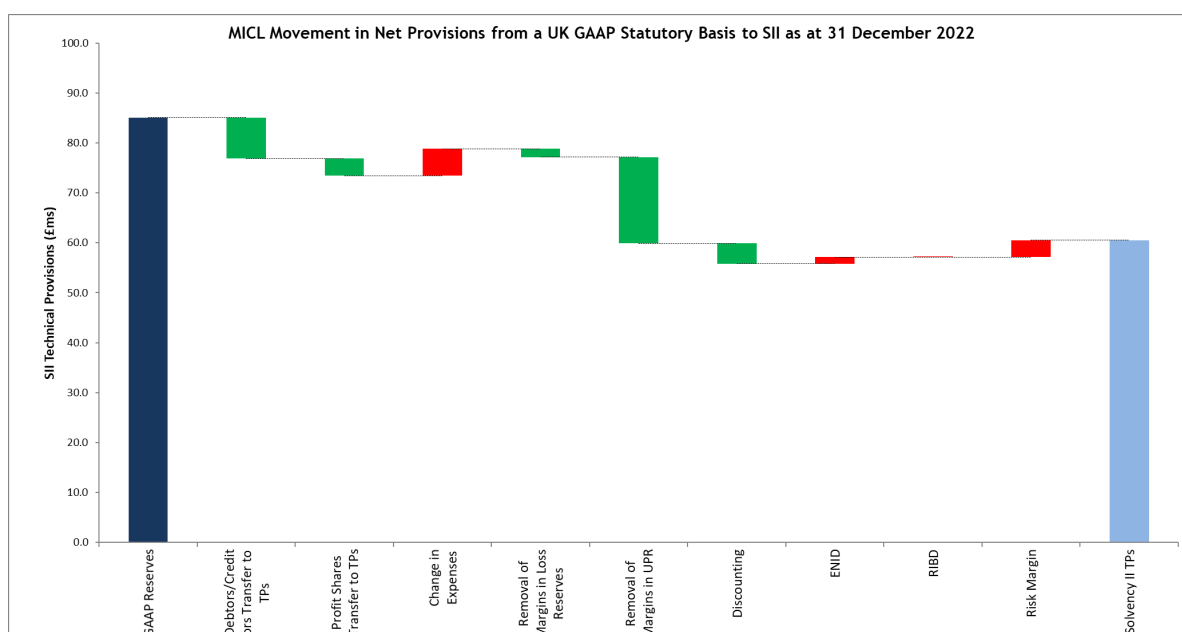
The Solvency II directive requires that a Risk Margin be added to the Best Estimate TP's using a defined cost of capital approach. MICL uses a simplification to the full calculation. The SCR is calculated using the standard formula for the reference undertaking (SCR<sub>RU</sub>). The SCR<sub>RU</sub> is assumed to run-off in proportion to the TP's in order to complete the calculation.

#### D.2.12 Other Liabilities

Some of the MBI programmes that MICL writes include some form of profit-sharing provision. Provisions for profit-share payments that are likely to be made in the future are calculated for each individual programme. These provisions are then split between the Claims Provisions and the Premium Provisions dependent on the timing of the accrual of the provision.

#### D.2.13 Movement of Provisions from Statutory to Solvency II

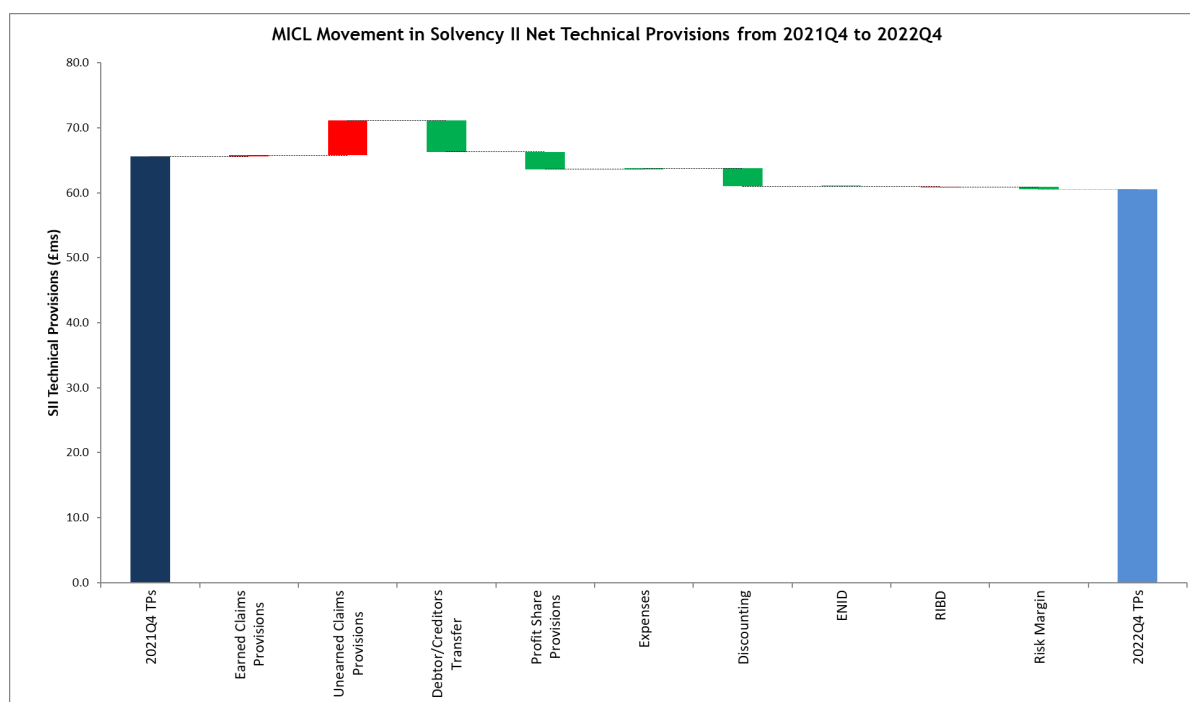
The waterfall chart below shows the movement in provisions from the statutory accounts to the Solvency II TP's.



#### D.2.14 Movement in Solvency II Technical Provisions since the Previous Valuation

The TP's have decreased by £5.1m since the last valuation date. The waterfall chart below shows the movement in provisions from the 2021 year end valuation to the current TP's.





The majority of movements in the Solvency II TP over the prior 12 months have been relatively small. An increase in the unearned claims provisions resulting from higher ultimate loss ratios has been more than offset by an increase in the discounting effect, the ceding of the profit share provisions and the impact on the increased credit terms for clients in the Debtor/Creditor Transfer element.

The remaining movements in the unearned Claims Provisions, expenses, ENIDs, RIBD and the Risk Margin are very small.

#### D.2.15 Adjustments to Technical Provisions

MICL did not apply the Matching Adjustment, Volatility Adjustment, Transitional Risk-Free Interest Term Structure or the Transitional Deduction when calculating its Solvency II TP at 31 December 2022 (2021: no adjustments were made).

#### D.2.16 Material Changes since the last valuation

There are no material changes to the method or assumptions used in the calculation of the TP to be reported.

### D.3 Other liabilities

#### D.3.1 Deferred tax liabilities

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Deferred tax liabilities	-	-	6,280	6,280

The Company has no deferred tax liability under UK GAAP. However, the Solvency II balance sheet has a deferred tax liability balance mainly in respect of the increase in own funds due to the recognition of future profits in technical provisions (unearned premium reserve) when calculated on a Solvency II basis.



### D.3.2 Insurance and intermediaries, and reinsurance payables

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Deposits from reinsurers	-	41,303	-	41,303
Insurance & intermediaries payables	19,597	(16,567)	-	3,029
Reinsurance payables	62,167	(56,877)	-	5,290

Payables to intermediaries, ceding insurers and reinsurers are valued at amortised cost, consistent with the approach under UK GAAP, which is not considered to be materially different to the Solvency II valuation principle since creditor balances are short term, with no discounting impact and convertible into cash.

Where the amounts are not past contractual payment terms, i.e., not yet due, they are transferred to technical provisions. The UK GAAP balance also includes amounts owed in respect of profit-sharing agreements, which are included in technical provisions in the Solvency II balance sheet as the future amounts payable are directly affected by the future policy cash flows.

### D.3.3 Payables (trade, not insurance) and other liabilities

Solvency II Balance Sheet As at 31 <sup>st</sup> December 2022	Statutory Accounts Value	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II Value
	£'000	£'000	£'000	£'000
Payables (trade, not insurance)	10,862	-	-	10,862
Any other liabilities	13,872	-	(13,872)	-

Payables (trade, not insurance) are carried at amortised cost using the effective interest method. The effect of movement in own credit risk on the valuation is not expected to be material, therefore no adjustment to the UK GAAP values is needed.

Trade payables solely comprises of amounts which fall due within 12 months and are considered to be held at fair value under UK GAAP. Trade payables include amounts due to suppliers, other Group companies, public entities, etc. and which are not insurance related.

Any other liabilities consist of deferred revenue. The valuation difference between the two bases relates to deferred revenue on reinsurance ceded.

## D.4 Alternative methods for valuation

As there are no quoted market prices for the Company's holdings in loans and mortgages alternative valuation methods, as defined in the Solvency II regulations, are used to determine the fair values of these assets.

The details for these alternative valuation methods are disclosed in section D.1.2.

## D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities.

# Capital Management

Section E

---



## E. Capital Management

### E.1 Own funds

Capital Requirements 31 Dec 2022	2022		2021	
	£000	Coverage	£000	Coverage
Total eligible own funds eligible to meet SCR and MCR	86,410		91,116	
SCR	55,100	157%	60,835	150%
MCR	19,296	448%	19,939	457%

The objective of the Company in managing own funds is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate margin. Own funds should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of senior management, which are at least quarterly, in which the ratio of eligible own funds over SCR and MCR is reviewed. The Committees that review solvency are described in more detail in section B.1.1. The responsibility ultimately rests with the Company's board of directors. As part of own funds management, MICL prepares ongoing annual solvency projections and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA, contains a three-year projection of funding requirements and this helps focus actions for future funding.

	Tier 1 – Unrestricted (£000)	
	2022	2021
Ordinary share capital	11,700	11,700
Total reconciliation reserve	74,710	79,416
Total eligible own funds eligible to meet SCR and MCR	86,410	91,116

MICL's share capital and reconciliation reserve are all available as tier 1 unrestricted own funds as per Article 69 (a)(i) of the Delegated Regulation. The ordinary share capital is not subordinated and has no restricted duration. As dividends are foreseen and subsequently paid, this reduces the own funds of the Company. The reconciliation reserve is equal to the excess of assets over liabilities less other basic own fund items including foreseeable dividends at the reporting date.

The Company's own funds are all tier 1 unrestricted and are available to cover the SCR and MCR. MICL has no tier 1 restricted own funds, no tier 2 own funds, and no tier 3 own funds.



The table below analyses the difference between the equity in the financial statements and the Solvency II value of excess of assets over liabilities as at 31 December 2022 and 31 December 2021:

	2022	2021
	£'000	£'000
Equity per UK GAAP financial statements comprising:		
Ordinary share capital	11,700	11,700
Retained earnings	61,869	62,561
Total equity as reported in the financial statements	<b>73,569</b>	<b>74,261</b>
Adjustments between annual financial statements and excess of assets over liabilities for solvency purposes:		
Assets	(76,922)	(54,954)
Technical provisions	56,030	50,545
Deferred tax liability	(6,280)	(3,954)
Any other liabilities	46,013	25,218
Foreseeable dividends, distributions and charges	(6,000)	-
Excess of assets over liabilities for solvency purposes (reconciliation reserve before deductions plus ordinary share capital)	<b>86,410</b>	<b>91,116</b>



## E.2 Solvency capital requirement and minimum capital requirement

At the reporting date MCL's SCR was £55.100m (2021: £60.835m). The table below shows the SCR by risk category.

	2022 £'000	2021 £'000
Counterparty Default Risk	3,704	3,084
Market Risk	12,731	12,821
Non-Life Underwriting Risk	50,422	54,618
<b>Undiversified BSCR</b>	<b>66,858</b>	<b>70,523</b>
Diversification Credit	(9,853)	(9,733)
<b>Basic SCR</b>	<b>57,005</b>	<b>60,789</b>
Operational Risk	4,376	3,999
Adjustment for Deferred Taxes	(6,280)	(3,954)
<b>SCR</b>	<b>55,100</b>	<b>60,835</b>

MCL has not made use of undertaking specific parameters (USPs) in the calculation of any module of the SCR, nor has it used any simplified calculations in any risk module or sub-module in calculating the SCR. The final amount of the SCR remains subject to supervisory assessment.

The significant decrease in non-life underwriting risk has been driven by increasing benefits of the reinsurance arrangements the company has in place. The adjustment for deferred taxes has increased due to the impact of higher risk-free rates in 2022 on the discounting of liabilities, widening the gap between UK GAAP and Solvency 2 Own funds.

At the reporting date, the MCR was £19.296m (2021: £19.939m).

The table below shows the inputs into the MCR calculation. In the table, the AMCR is the absolute floor of the MCR and is the sterling equivalent of €2,500. The Linear MCR is based on a predetermined calculation with reference to net written premium and net technical provisions. The Combined MCR is the higher of the Linear Non-Life MCR plus the Linear Life SCR, or the MCR floor/cap if the Linear MCR falls outside of the range of >25% of the SCR and <45% of the SCR.



	2022	2021
	£'000	£'000
AMCR (€2,500)	2,153	2,112
Linear MCR	19,296	19,939
SCR	55,100	60,835
Combined MCR	19,296	19,939
<b>MCR</b>	<b>19,296</b>	<b>19,939</b>

### E.3 Use of duration-based equity risk sub-module in the calculation of Solvency Capital Requirement

The duration-based equity risk sub-module is not applicable to MICL.

### E.4 Difference between the standard formula and the internal model used

MICL does not utilise an Internal Model, therefore this section is not applicable.

### E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company has complied with the MCR and the SCR throughout the reporting period.

The Company's plans to ensure that compliance with each is maintained are detailed within Capital Planning and Management in section B.

### E.6 Any other information

There is no other material information regarding MICL's capital management.

# QRTs

Section F





## F. QRTs

### S.02.01.02

#### Balance sheet

#### Assets

Intangible assets
Deferred tax assets
Pension benefit surplus
Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities - listed
Equities - unlisted
Bonds
Government Bonds
Corporate Bonds
Structured notes
Collateralised securities
Collective Investments Undertakings
Derivatives
Deposits other than cash equivalents
Other investments
Assets held for index-linked and unit-linked contracts
Loans and mortgages
Loans on policies
Loans and mortgages to individuals
Other loans and mortgages
Reinsurance recoverables from:
Non-life and health similar to non-life
Non-life excluding health
Health similar to non-life
Life and health similar to life, excluding health and index-linked and unit-
Health similar to life
Life excluding health and index-linked and unit-linked
Life index-linked and unit-linked
Deposits to cedants
Insurance and intermediaries receivables
Reinsurance receivables
Receivables (trade, not insurance)
Own shares (held directly)
Amounts due in respect of own fund items or initial fund called up but not
Cash and cash equivalents
Any other assets, not elsewhere shown
<b>Total assets</b>

	<b>Solvency II value C0010</b>
<b>R0030</b>	0
<b>R0040</b>	0
<b>R0050</b>	0
<b>R0060</b>	0
<b>R0070</b>	178,452
<b>R0080</b>	0
<b>R0090</b>	0
<b>R0100</b>	0
<b>R0110</b>	0
<b>R0120</b>	0
<b>R0130</b>	178,452
<b>R0140</b>	118,958
<b>R0150</b>	59,495
<b>R0160</b>	0
<b>R0170</b>	0
<b>R0180</b>	0
<b>R0190</b>	0
<b>R0200</b>	0
<b>R0210</b>	0
<b>R0220</b>	0
<b>R0230</b>	16,686
<b>R0240</b>	0
<b>R0250</b>	0
<b>R0260</b>	16,686
<b>R0270</b>	62,009
<b>R0280</b>	62,009
<b>R0290</b>	62,009
<b>R0300</b>	0
<b>R0310</b>	0
<b>R0320</b>	0
<b>R0330</b>	0
<b>R0340</b>	0
<b>R0350</b>	1,561
<b>R0360</b>	3,904
<b>R0370</b>	3,954
<b>R0380</b>	1,242
<b>R0390</b>	0
<b>R0400</b>	0
<b>R0410</b>	13,882
<b>R0420</b>	0
<b>R0500</b>	281,691



**Annex I**  
**S.02.01.02**  
**Balance sheet**

**Liabilities**

Technical provisions – non-life
Technical provisions – non-life (excluding health)
TP calculated as a whole
Best Estimate
Risk margin
Technical provisions – health (similar to non-life)
TP calculated as a whole
Best Estimate
Risk margin
Technical provisions – life (excluding index-linked and unit-linked)
Technical provisions – health (similar to life)
TP calculated as a whole
Best Estimate
Risk margin
Technical provisions – life (excluding health and index-linked and unit-linked)
TP calculated as a whole
Best Estimate
Risk margin
Technical provisions – index-linked and unit-linked
TP calculated as a whole
Best Estimate
Risk margin
Contingent liabilities
Provisions other than technical provisions
Pension benefit obligations
Deposits from reinsurers
Deferred tax liabilities
Derivatives
Debts owed to credit institutions
Financial liabilities other than debts owed to credit institutions
Insurance & intermediaries payables
Reinsurance payables
Payables (trade, not insurance)
Subordinated liabilities
Subordinated liabilities not in BOF
Subordinated liabilities in BOF
Any other liabilities, not elsewhere shown
<b>Total liabilities</b>
<b>Excess of assets over liabilities</b>

	<b>Solvency II value</b>
	<b>C0010</b>
<b>R0510</b>	122,517
<b>R0520</b>	122,517
<b>R0530</b>	0
<b>R0540</b>	119,140
<b>R0550</b>	3,377
<b>R0560</b>	0
<b>R0570</b>	0
<b>R0580</b>	0
<b>R0590</b>	0
<b>R0600</b>	0
<b>R0610</b>	0
<b>R0620</b>	0
<b>R0630</b>	0
<b>R0640</b>	0
<b>R0650</b>	0
<b>R0660</b>	0
<b>R0670</b>	0
<b>R0680</b>	0
<b>R0690</b>	0
<b>R0700</b>	0
<b>R0710</b>	0
<b>R0720</b>	0
<b>R0740</b>	0
<b>R0750</b>	0
<b>R0760</b>	0
<b>R0770</b>	41,303
<b>R0780</b>	6,280
<b>R0790</b>	0
<b>R0800</b>	0
<b>R0810</b>	0
<b>R0820</b>	3,029
<b>R0830</b>	5,290
<b>R0840</b>	10,861
<b>R0850</b>	0
<b>R0860</b>	0
<b>R0870</b>	0
<b>R0880</b>	0
<b>R0900</b>	189,281
<b>R1000</b>	92,410



Annex I

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
<b>Premiums written</b>										
Gross - Direct Business	R0110	0	0	0	0	14,701	0	0	0	0
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance	R0130									
Reinsurers' share	R0140	0	0	0	0	6,790	0	0	0	0
Net	R0200	0	0	0	0	7,911	0	0	0	0
<b>Premiums earned</b>										
Gross - Direct Business	R0210	0	0	0	0	12,896	0	0	0	0
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance	R0230									
Reinsurers' share	R0240	0	0	0	0	4,730	0	0	0	0
Net	R0300	0	0	0	0	8,166	0	0	0	0
<b>Claims incurred</b>										
Gross - Direct Business	R0310	0	0	0	0	6,917	0	0	0	0
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	-4	0	0	0	0
Gross - Non-proportional reinsurance	R0330									
Reinsurers' share	R0340	0	0	0	0	3,201	0	0	0	0
Net	R0400	0	0	0	0	3,713	0	0	0	0
<b>Changes in other technical provisions</b>										
Gross - Direct Business	R0410	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance	R0430									
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0	0
<b>Expenses incurred</b>	R0550	0	0	0	0	4,582	0	0	0	0
<b>Other expenses</b>	R1200									
<b>Total expenses</b>	R1300									



Annex I

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	
<b>Premiums written</b>									
Gross - Direct Business	R0110	0	1,207	130,314					146,222
Gross - Proportional reinsurance accepted	R0120	0	0	8,024					8,024
Gross - Non-proportional reinsurance	R0130				0	0	0	0	0
Reinsurers' share	R0140	0	597	67,123	0	0	0	0	74,510
Net	R0200	0	610	71,215	0	0	0	0	79,737
<b>Premiums earned</b>									
Gross - Direct Business	R0210	0	746	119,095					132,738
Gross - Proportional reinsurance accepted	R0220	0	0	13,123					13,123
Gross - Non-proportional reinsurance	R0230				0	0	0	0	0
Reinsurers' share	R0240	0	314	51,472	0	0	0	0	56,516
Net	R0300	0	433	80,746	0	0	0	0	89,345
<b>Claims incurred</b>									
Gross - Direct Business	R0310	0	385	75,022					82,324
Gross - Proportional reinsurance accepted	R0320	0	0	4,173					4,169
Gross - Non-proportional reinsurance	R0330				0	0	0	0	0
Reinsurers' share	R0340	0	187,734	42,636	0	0	0	0	46,024
Net	R0400	0	-187,349	36,559	0	0	0	0	40,469
<b>Changes in other technical provisions</b>									
Gross - Direct Business	R0410	0	0	0					0
Gross - Proportional reinsurance accepted	R0420	0	0	0					0
Gross - Non-proportional reinsurance	R0430				0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0
<b>Expenses incurred</b>	R0550	0	59	33,947	0	0	0	0	38,589
<b>Other expenses</b>	R1200								0
<b>Total expenses</b>	R1300								38,589



# Annex I

## S.05.02.01

### Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010	<del>C0010</del>	DE	TR	BE	FR	ES	<del>C0070</del>
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Premiums written</b>								
Gross - Direct Business	R0110	145,943	0	0	0	0	0	145,943
Gross - Proportional reinsurance accepted	R0120	0	3,655	2,616	927	785	481	8,465
Gross - Non-proportional reinsurance accepted	R0130	0	0	0	0	0	0	0
Reinsurers' share	R0140	71,153	1,530	890	382	295	198	74,449
Net	R0200	74,790	2,124	1,727	545	490	283	79,959
<b>Premiums earned</b>								
Gross - Direct Business	R0210	132,414	0	0	0	0	0	132,414
Gross - Proportional reinsurance accepted	R0220	0	4,567	1,201	1,145	914	421	8,248
Gross - Non-proportional reinsurance accepted	R0230	0	0	0	0	0	0	0
Reinsurers' share	R0240	53,012	1,603	253	410	312	151	55,742
Net	R0300	79,402	2,964	947	736	602	270	84,920
<b>Claims incurred</b>								
Gross - Direct Business	R0310	82,112	0	0	0	0	0	82,112
Gross - Proportional reinsurance accepted	R0320	0	1,946	544	565	431	191	3,677
Gross - Non-proportional reinsurance accepted	R0330	0	0	0	0	0	0	0
Reinsurers' share	R0340	43,691	863	170	283	214	95	45,316
Net	R0400	38,421	1,083	374	282	217	96	40,473
<b>Changes in other technical provisions</b>								
Gross - Direct Business	R0410	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0
Expenses incurred	R0550	33,416	1,145	810	323	401	179	36,274
Other expenses	R1200	<del>C0010</del>	<del>C0020</del>	<del>C0030</del>	<del>C0040</del>	<del>C0050</del>	<del>C0060</del>	0
Total expenses	R1300	<del>C0010</del>	<del>C0020</del>	<del>C0030</del>	<del>C0040</del>	<del>C0050</del>	<del>C0060</del>	36,274





Annex I  
S.19.01.21

Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	<b>Z0010</b>	Accident Year
--------------------------------------	--------------	---------------

Gross Claims Paid (non-cumulative)  
(absolute amount)

Year	Development year											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +		
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100											R0100	
N-9	R0160	12496	1822	34	4	0	1	0	0	0	0	R0160	0
N-8	R0170	28373	3412	31	11	1	1	0	0	1		R0170	1
N-7	R0180	34719	3671	74	6	1	1	0	1			R0180	1
N-6	R0190	37785	4709	44	-1	2	0	-2				R0190	-2
N-5	R0200	43111	6394	28	-2	5	-2					R0200	-2
N-4	R0210	49872	7104	141	14	17						R0210	17
N-3	R0220	54447	8106	129	39							R0220	39
N-2	R0230	52045	9098	252								R0230	252
N-1	R0240	62569	10519									R0240	10519
N	R0250	74802										R0250	74802
Total												R0260	85626
													505884

Gross undiscounted Best Estimate Claims Provisions  
(absolute amount)

Year	Development year											Year end (discounted)
	0	1	2	3	4	5	6	7	8	9	10 & +	
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior	R0100											R0100
N-9	R0160			0	0	0	0	0	0	0	0	R0160
N-8	R0170		6	0	0	0	0	0	0			R0170
N-7	R0180		82	13	0	0	0	0	0			R0180
N-6	R0190	19716	142	9	0	0	0	0				R0190
N-5	R0200	22984	152	14	0	0	0					R0200
N-4	R0210	22238	120	300	304	0						R0210
N-3	R0220	24955	572	448	9							R0220
N-2	R0230	29017	286	51								R0230
N-1	R0240	30971	382									R0240
N	R0250	32515										R0250
Total												R0260
												31530



**Annex I**  
**S.23.01.01**  
**Own funds**

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35**

Ordinary share capital (gross of own shares)  
Share premium account related to ordinary share capital  
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings  
Subordinated mutual member accounts  
Surplus funds  
Preference shares  
Share premium account related to preference shares  
Reconciliation reserve  
Subordinated liabilities  
An amount equal to the value of net deferred tax assets  
Other own fund items approved by the supervisory authority as basic own funds not specified above

**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**

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

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand  
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand  
Unpaid and uncalled preference shares callable on demand  
A legally binding commitment to subscribe and pay for subordinated liabilities on demand  
Letters of credit and guarantees under Article 36(2) of the Directive 2009/138/EC  
Letters of credit and guarantees other than under Article 36(2) of the Directive 2009/138/EC  
Supplementary members calls under first subparagraph of Article 36(3) of the Directive 2009/138/EC  
Supplementary members calls - other than under first subparagraph of Article 36(3) of the Directive 2009/138/EC  
Other ancillary own funds

**Total ancillary own funds**

**Annex I**  
**S.23.01.01**  
**Own funds**

**Available and eligible own funds**

Total available own funds to meet the SCR  
Total available own funds to meet the MCR  
Total eligible own funds to meet the SCR  
Total eligible own funds to meet the MCR

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

Excess of assets over liabilities  
Own shares (held directly and indirectly)  
Foreseeable dividends, distributions and charges  
Other basic own fund items  
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**Reconciliation reserve**

**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business  
Expected profits included in future premiums (EPIFP) - Non-life business

**Total Expected profits included in future premiums (EPIFP)**

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	11,700	11,700		0	
R0030	0	0		0	
R0040	0	0		0	
R0050	0		0	0	0
R0070	0	0			
R0090	0		0	0	0
R0110	0		0	0	0
R0130	74,710	74,710			
R0140	0		0	0	0
R0160	0				0
R0180	0	0	0	0	0
R0220	0				
R0230	0	0	0	0	
R0290	86,410	86,410	0	0	0
R0300	0			0	
R0310	0			0	
R0320	0			0	0
R0330	0			0	0
R0340	0			0	
R0350	0			0	0
R0360	0			0	
R0370	0			0	0
R0390	0			0	0
R0400	0			0	0

R0500	86,410	86,410	0	0	0
R0510	86,410	86,410	0	0	
R0540	86,410	86,410	0	0	0
R0550	86,410	86,410	0	0	
R0580	55,100				
R0600	19,296				
R0620	157%				
R0640	448%				

	C0060
R0700	32,410
R0710	0
R0720	6,000
R0730	11,700
R0740	0
R0760	74,710
R0770	0
R0780	528
R0790	0





## Annex I

S.25.01.21

### Solvency Capital Requirement – for undertakings on Standard Formula

Market risk

Counterparty default risk

Life underwriting risk

Health underwriting risk

Non-life underwriting risk

Diversification

Intangible asset risk

#### Basic Solvency Capital Requirement

#### Calculation of Solvency Capital Requirement

Operational risk

Loss-absorbing capacity of technical provisions

Loss-absorbing capacity of deferred taxes

Capital requirement for business operated in accordance with Art. 4 of Directive

#### Solvency capital requirement excluding capital add-on

Capital add-on already set

#### Solvency capital requirement

#### Other information on SCR

Capital requirement for duration-based equity risk sub-module

Total amount of Notional Solvency Capital Requirement for remaining part

Total amount of Notional Solvency Capital Requirements for ring fenced funds

Total amount of Notional Solvency Capital Requirement for matching adjustment

Diversification effects due to RFF nSCR aggregation for article 304

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	12,731		
R0020	3,704		
R0030	0	0	0
R0040	0	0	0
R0050	50,422	0	0
R0060	-9,853		
R0070	0		
R0100	57,005		

	C0100
R0130	4,376
R0140	0
R0150	-6,280
R0160	0
R0200	55,100
R0210	0
R0220	55,100
R0400	0
R0410	0
R0420	0
R0430	0
R0440	0



## Annex I

### S.28.01.01

#### Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

##### Linear formula component for non-life insurance and reinsurance obligations

MCR <sub>NL</sub> Result	C0010	
	R0010	19,296

	Net (of reinsurance/SP V) best estimate and TP calculated as a	Net (of reinsurance) written premiums in the last 12	
	C0020	C0030	
Medical expense insurance and proportional reinsurance	R0020	0	0
Income protection insurance and proportional reinsurance	R0030	0	0
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	0	0
Other motor insurance and proportional reinsurance	R0060	5,979	7,911
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	0	0
General liability insurance and proportional reinsurance	R0090	0	0
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	160	610
Miscellaneous financial loss insurance and proportional reinsurance	R0130	50,991	71,215
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	0	0
Non-proportional property reinsurance	R0170	0	0

##### Linear formula component for life insurance and reinsurance obligations

		C0040	
MCR <sub>L</sub> Result	R0200	0	
		Net (of reinsurance/SP V) best estimate and TP calculated as a	Net (of reinsurance/S PV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	0	
Obligations with profit participation – future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	0	
Total capital at risk for all life (re)insurance obligations	R0250		0

##### Overall MCR calculation

Linear MCR	C0070	
	R0300	19,296
SCR	R0310	55,100
MCR cap	R0320	24,795
MCR floor	R0330	13,775
Combined MCR	R0340	19,296
Absolute floor of the MCR	R0350	2,153
	C0070	
Minimum Capital Requirement	R0400	19,296



Motors Insurance Company  
An AmTrust Financial Company