# Group Solvency and Financial Condition Report

Collinson Holdings Europe Limited

# Table of Contents

# Executive Summary

The Directors of Collinson Insurance Europe Limited (“CIEL” or “the Company” or “Insurance undertaking”) present the Group Solvency and Financial Condition Report (“SFCR”) for the year ended 30th April 2021. A Single Group SFCR has been prepared further to approval received from the Malta Financial Services Authority (“MFSA”) on 23 September 2019.

Collinson Insurance Europe Limited is the entity responsible for fulfilling the governance requirements at Group level. The Companies falling within the Group are Collinson Holdings Europe Limited (“CHEL” or “the Parent”) as an EEA Insurance Holding Company and CIEL as an Insurance Undertaking. Together, CIEL and CHEL are referred to as “The Group”. The Group falls under Article 213(2)(b) of the Solvency II Directive.

CHEL holds an investment in Collinson Insurance Solutions Europe Limited (“CISEL” or “the insurance intermediary”) as an Insurance Intermediary licenced under the Insurance Distribution Act. The Directors of CIEL have determined that CISEL should be classified as a strategic participation when considering the requirements of Article 335 of the Solvency II Delegated Regulation and EIOPA published Q&A ID 649.

CHEL, as the immediate parent of CIEL, undertakes the role of an intermediary between its subsidiaries and the ultimate beneficiary owner. The Parent does not undertake any additional role or commercial activities. The Parent was incorporated on the 17 December 2018.

As CIEL is responsible for fulfilling the governance requirements, all references to Operations, Compliance and Risk Management throughout this document refers to those in place at the insurance undertaking.

This SFCR has been prepared to allow the Parent to comply with the Pillar III reporting requirements under Directive 2009/138/EC and associated Regulations (‘the Solvency II Directive’). It refers to the financial period ended 30th April 2021 (“the reference date”).

The Company’s principal activity is that of underwriting general insurance business. The Company was incorporated on 20th December 2018 and was granted a licence in terms of section 7 of the Insurance Business Act, 1998 (Cap. 403 of the Laws of Malta) to write business of insurance within Classes 1, 2, 7, 8, 9, 13, 16, 17 and 18 on 25 February 2019.

All figures represented in this document are in Euro (“EUR”, “€”) unless otherwise noted.

# Business and Performance

The current financial period of the Group covers the period from 1 May 2020 to 30 April 2021. The comparative figures cover the period from incorporation on 20 December 2018 to 30 April 2020.

As the Parent did not generate any revenue, it reported a loss of €10,474 (2020: €10,644) for the year ended 30 April 2021 arising from the administrative expenses it incurred.

During the year ended 30th April 2021, the Company reported gross written premiums of €24,389,059 (2020: €38,733,938), of which €17,393,385 (2020: €32,850,495) was ceded out to reinsurers. The drop in the volumes of premiums follows the unprecedented turmoil caused by the COVID-19 pandemic which resulted in multiple lockdowns and prevented any material new sales of travel insurance policies. Total claims incurred net of reinsurance amounted to €1,303,720 (2020: €1,601,696). This resulted in a net loss ratio of 31.96% (2020: 37.48%) for the financial year under review. Gross claims outstanding and gross claims incurred but not reported (IBNR) reserves at 30 April 2021 amounted to €3,540,776 (2020: €4,165,333).

After factoring in net operating expenses, including acquisition costs, of €1,847,058 (2020: €1,999,869) and administrative expenses of €625,317 (2020: €780,011), the Company registered a profit before tax of €302,988 (2020: loss before tax of €108,014).

Since the final two months of the previous period, the Group has been exposed to the risks triggered by the Covid-19 pandemic. The impact has been seen in the Travel Insurance portfolios with an increase in cancellation related claims and a loss of travel related premium with sales of insurance related to global travel impacted due to the Covid-19 lockdown throughout Europe. Whilst the reinsurance programmes have mitigated some of the financial impact of claims to the Company, the reduction in the sale of Travel Insurance continued throughout FY21 and as a result FY22 will continue to be impacted. As a result, the impact to premium earnings will be seen in FY22 and the unknown pace of recovery also extends this risk further into FY22. The Company's portfolio provides a strong balance of diversification with lines of business such as dental and international health being less impacted by Covid-19.

The Group's financial position is satisfactory, and the Directors expect that the present level of activity will continue to grow in the foreseeable future. The shareholders' funds of the Group amounted to €7,124,495 (2020: Restated €4,835,167) and reflects the injection of share capital made during the year and the retained earnings generated during the financial year ended 30 April 2021.

# Systems of Governance

The Company maintains a robust system of governance which is commensurate to the nature, scale and complexity of the Company's activities and its risk profile.

The system of governance revolves around the Board and the Underwriting and Claims Committee; with some key functions outsourced to external service providers, in line with the Company's Outsourcing Policy.

The mainstay of the system of governance is the risk management system: which is designed to ensure that all the material risks are identified; and that policies and procedures are in place to assess their potential impact and to adequately report them, so that they can be managed or mitigated. The Company recognises the importance of having an effective risk management system embedded throughout all its areas.

The Company's Risk Management System is comprised of the following elements:

- Risk Register
- Risk Appetite Statement ("RAS")

- Formal Policy Documents for all key risks
- Own Risk and Solvency Assessment (“ORSA”)
- Formalised Risk Reporting

During the year under review, the Company revisited and upgraded its Risk Management Framework and introduced a Risk Appetite Framework. The Company also refined its Risk Appetite Statement and Risk Register. These changes were carried out in order to align the risk management system of the Company to the system utilised by the Insurance Division across the Collinson Group. Such change simplifies the management and reporting of risk across the whole Insurance Division of the Collinson Group.

During the year under review, the Board also approved the formation of a Risk Committee to further support the formalisation of a Risk Management working group as a recognised Committee reporting into the Board. The Company is still seeking regulatory approval for the formation of the Risk Committee. In the interim, the Risk Management Working Group continues to meet to review and provide recommendations to the Board of Directors on all matters related to risk management.

Changes to the Directors of CIEL are noted in Section A.1.

## Risk Profile

The acceptance of risk is fundamental to CIEL and a core element of the overall strategic objectives as an insurance undertaking.

Each of the elements of the Risk Management System listed above contribute to the identification, measurement, monitoring, management and reporting of risks and is intended to work as an integrated system, and therefore each should be considered both in terms of the specific function of the respective element, and in terms of its function within the overall system.

Each element of the system is embedded effectively within the Company and managed by the Risk Management Function with appropriate oversight from the Board of Directors of CIEL.

The Company’s main risk is in respect of the business of writing insurance as this is the principal activity. The risk under any one insurance contract is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims and actual benefits paid. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Insurance Undertaking manages these risks through an underwriting strategy that is approved by the Board after having considered the Underwriting and Claims Committee’s advice.

The contracts issued by the Insurance Undertaking are issued with limits on event or aggregate liability towards the policy holder.

Other risks relate to counterparty default risk in relation to insurance and reinsurance receivables and short-term investments, market risk in relation to liquidity risk and asset-liability management (“ALM”), operational and compliance risks. Covid-19 has posed a significant challenge on the Company and features within the strategic risk radar of the Company as a key risk which is being closely monitored.

The Directors have considered that the Parent and insurance intermediary do not add any material risk to the Group. The Parent is a holding company which carries out no activities. The Parent exposes the group to immaterial counterparty default risk from the minimal cash at bank balance it holds.

# Valuation and Capital Management

The Group abides by the Solvency II Directive (2009/138/EC) which ascertains the level of the required regulatory capital on the basis of the risks they undertake, in terms of the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) and the applicable Insurance Rules issued under the Insurance Business Act by the Malta Financial Services Authority. Solvency II outlines how the own funds shall be derived by converting the Statement of Financial Position from an International Financial Reporting Standards (IFRS) perspective to one where assets and liabilities are measured in line with their underlying economic value.

Since the inception of the Company, the Directors of CIEL were actively involved in the implementation of the Solvency II legislation and these are embedded in the Company's operations. Regular monitoring of the Solvency Capital Requirement ("SCR") and Minimum Capital Requirements ("MCR") is considered crucial and a Capital Management Policy is in place to address the procedures and controls in this regard.

The infancy of CIEL generates a unique situation where the MCR is in excess of the SCR until CIEL is more mature as an Insurer. As a result, the Directors of CIEL monitor solvency through frequent reviews of the cover over the MCR. The transition to the SCR being greater than the MCR is planned to occur during Financial Year 2022.

The Group and Company monitor their capital level on a regular basis. Based on the SCR calculations as at 30 April 2021, the Group complied with the capital and solvency requirements as stipulated in the rules issued by the MFSA and within the Board approved risk appetite. The Group's Solvency position as at 30 April 2021 was as follows:

**GROUP**

| Solvency Position | 2021 EUR | 2020 EUR |
|---|---|---|
| Group's Own Funds to cover the SCR | 7,022,709 | 4,694,561 |
| Solvency Capital Requirement | 3,682,937 | 2,210,301 |
| **SCR Cover** | **190.68%** | **212.39%** |
| Group's Own Funds to cover the Minimum Consolidated Group SCR | 6,968,166 | 4,638,407 |
| Minimum Consolidated Group SCR | 3,700,000 | 3,700,000 |
| **Minimum Consolidated Group SCR Cover** | **188.33%** | **125.36%** |

| Basic SCR | 2021 EUR | 2020 EUR |
|---|---|---|
| Market Risk | 463,457 | 345,136 |
| Counterparty Default Risk | 1,035,597 | 786,052 |
| Health UW Risk | 1,444,254 | 541,975 |
| Non-Life UW Risk | 1,397,532 | 783,765 |
| Diversification Benefit | (1,439,145) | (756,696) |
| | **2,901,695** | **1,700,232** |

| SCR | 2021 EUR | 2020 EUR |
|---|---|---|
| Basic SCR | 2,901,695 | 1,700,232 |
| Operational Risk | 781,242 | 510,069 |
| LACDT | - | - |
| | **3,682,937** | **2,210,301** |

The SCR of the Group is mostly impacted by an increase in UW Risk. This is brought about by the projected new business which the Company is expecting to underwrite during FY 2022, which is primarily driven by the planned transfer of business previously written within the Great Lakes MGA. Such projected new business is within the capital plan as included in the 2021 ORSA.

The Own Funds available to cover the SCR and MCR has also been impacted by the injection of share capital made during the year and from the financial results of the year as explained in the Business and Performance section.

Based on management calculations, the Company expects to continue meeting the Solvency II capitalisation requirements and remain within the Board approved risk appetite going forward.

The Board of CIEL approved the latest Own Risk and Solvency Assessment ("ORSA") in August 2021 and was confident that the Group shall remain solvent under normal business conditions during the planning period.

The Board of CIEL also carried out several stresses to the realistic assessment and was satisfied that the Group shall remain solvent during the planning period.

# Section A: Business and Performance

# Section A: Business and Performance

## A.1 Business and External Environment

### Basic Information

| | |
|---|---|
| *Name of undertaking:* | Collinson Holdings Europe Limited |
| *Company number:* | C89896 |
| *Legal status:* | CHEL acts as an investment company by holding shares in a subsidiary company.<br><br>CIEL is a Company authorised by the MFSA to carry on the business of insurance and reinsurance in accordance with Insurance Business Act (Cap 403 of the laws of Malta). |
| *Directors of CHEL:* | Mark Richard Hampton<br>Lawrence David Watts |
| *Directors of CIEL:* | Joseph Mary Rizzo<br>Anne Marie Tabone<br>Elizabeth Carbonaro<br>Mark Richard Hampton<br>Sebastian Matthias Kittel (appointed 29 March 2021)<br>Lawrence David Watts<br>Paul Escott<br>Saugata Basu (resigned 31 March 2021) |
| *Name of supervisory authority:*<br>*Contact details:* | *Malta Financial Services Authority*<br>Ray Schembri<br>Insurance and Pensions Supervision Unit<br>Malta Financial Services Authority,<br>Triq l-Imdina, Zone 1<br>Central Business District, Birkirkara,<br>CBD 1010, Malta<br>Tel: +356 2144 1155<br>www.mfsa.com.mt |
| *Name of external auditors:*<br>*Contact details:* | *Ernst & Young Malta Ltd*<br>Shawn Falzon<br>Ernst & Young Malta Ltd<br>Regional Business Center,<br>Achille Ferris Street,<br>Msida MSD1751, Malta<br>Tel: +35621342134<br>http://www.ey.com/ |

## Business Objectives

The Collinson Group (Collinson) have developed and grown a personal lines insurance business over the years providing cover to Policyholders in UK, Europe and other countries across the globe. Insurance for EU policyholders was previously underwritten by the UK insurer, Astrenska Insurance Limited, or through partnership arrangements with other insurers namely, Great Lakes. Collinson continue to build and grow the sales and distribution of products via arrangements with a number of key distributors.

The establishment of CIEL and CISEL in Malta as a response to Brexit have allowed Collinson to provide a robust framework for the continuation and growth of insurance activity into and across Europe. Collinson have been working in these European markets for a number of years and are fully familiar with customer behaviour patterns and preferences, conduct of business rules and potential areas of growth and development.

The short term strategy for CIEL and CISEL was to secure a robust infrastructure of regulated entities, key business partnerships and operating infrastructures to ensure a successful transition of existing Collinson business to its new Malta regulated entities and to develop a longer term strategy to move existing clients currently underwritten by other insurers, to CIEL, as well as identify new profitable growth opportunities.

Financial Year ("FY") 2022 will see certain aspects of the longer term strategy for CIEL being implemented which include the roll out of the new claims and policy admin platform for International Health Insurance in the first half of FY 2022 and the digitisation and automation of the dental claims journey. This continues to offer our customers choice of channel throughout their claims journey as well as empowering our claims staff to reduce the end-to-end cycle time which lowers cost and increases customer satisfaction.

## Authorised Lines of Business

CIEL, is authorised to carry on business of insurance in the following classes:

*General business – insurance and reinsurance*

- Class 1: Accident
- Class 2: Sickness
- Class 7: Goods In Transit
- Class 8: Fire and Natural Forces
- Class 9: Other Damage to Property
- Class 13: General Liability
- Class 16: Miscellaneous Financial Loss
- Class 17: Legal expenses
- Class 18: Assistance

## Business Written

CIEL writes personal lines insurance in the International Health, Travel, Motor Ancillary, Personal Accident and Dental sectors.

The material products written by the CIEL are:

- International Health Insurance (SII line of business – Medical Expense Insurance);
- Travel Insurance (SII line of business – Assistance).
- Motor Assistance (SII line of business – Assistance).

The portfolio also consists of the following additional products:

- Personal Accident Insurance (SII line of business – Assistance), and
- Dental Insurance (SII line of business – Medical Expense Insurance).

CISEL acts as an insurance intermediary with CIEL on part of the above-mentioned portfolio of business. CISEL will continue to act as an intermediary to Great Lakes Insurance SE on travel insurance and dental insurance until September 2021 when those books of business will be onboarded into CIEL.

## Regulatory and Legal Issues and Market Developments

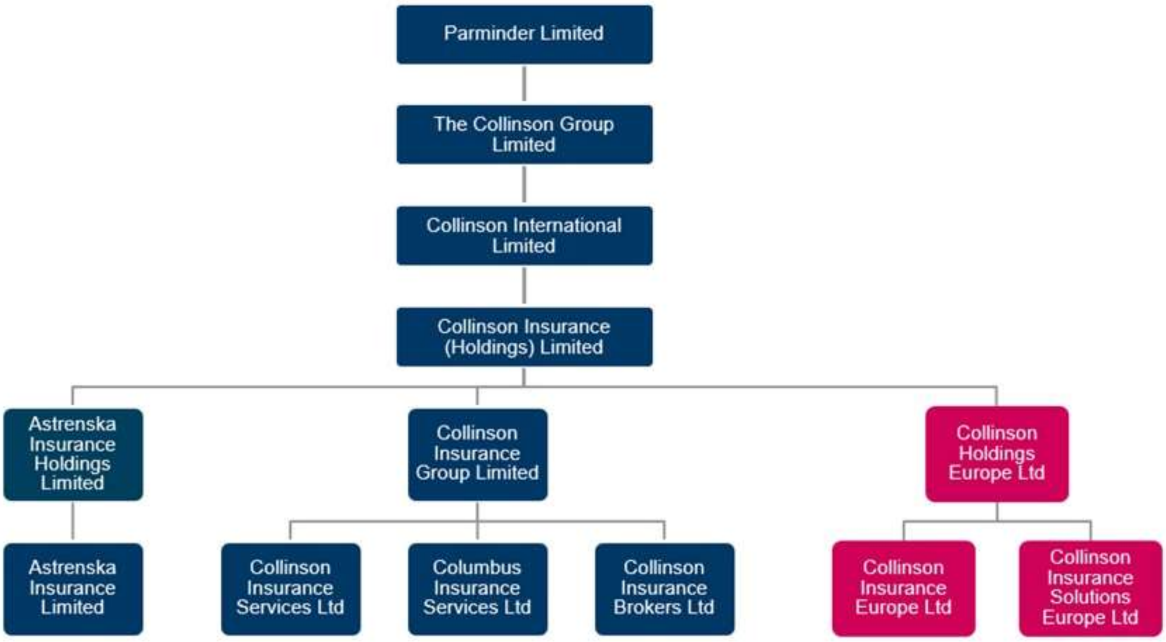
CIEL and CISEL have successfully migrated existing Collinson clients from their UK business to Malta in response to Brexit. There are no significant legal or regulatory issues that will affect the Group negatively in 2021-2022.

## Ownership Structure

CIEL and CISEL are 100% owned by Collinson Holdings Europe Limited. CHEL sits within the Insurance Division of The Collinson Group Limited as a direct subsidiary of Collinson Insurance Holdings Limited (CIHL).

The ultimate holding company of Collinson is Parminder Limited, a company incorporated in the Isle of Man. The ultimate controlling parties identified by Parminder Limited are the Trustees of the Colin Evans 1987 Settlement.

The Structure of the Group is shown below:




## Material Transactions with Shareholders and Members of the Board of Directors

Trading transactions with related parties and year end balances arising from these transactions are disclosed in Note 23 to the Audited Financial Statements of CIEL and Note 21 of CISEL.

## Significant events in the reporting period

There were no significant events during the current reporting period.

The Covid-19 global pandemic which unfolded during March 2020 culminated in the cessation of all global travel which resulted in travel cancellation claims compensated by a reduction in travel medical claims. In addition, the sales of travel insurance ceased and some policy premiums had to be refunded. Whilst the reinsurance programmes have mitigated some of the financial impact of claims to the Company, the reduction in the sale of Travel Insurance continued throughout FY21 and as a result FY22 will continue to be impacted. As a result, the impact to premium earnings will be seen in FY22 and the unknown pace of recovery also extends this risk further into FY22. The Company has remained committed to carrying out its business plan and is anticipating introducing further new business, with a particular focus on Dental and Travel schemes, during FY22. The existing and new business provides a strong balance of diversification to the Company. Lines of business such as dental and international health have been less impacted by Covid-19.

The current economic conditions and specifically the Covid-19 pandemic present increased risks for the Company. In response to such conditions, management have carefully considered the Company's financial and operational business plan, including new business opportunities and solvency forecasts for the going concern assessment period and extending through to April 2023. The Company has reviewed its reinsurance management, risk management, solvency and liquidity management to ensure the Company remains within its risk appetite. The assessment considered the current capital position of the Company and liquidity requirements, including consideration of the impact of the Covid-19 pandemic.

These were then subject to stress testing based on several scenarios, including scenarios considering the unfavourable impact in business volumes, loss ratios, credit ratings and foreign currency rates amongst others, incorporating the impact of the Covid-19 pandemic and the Company envisages that it will remain profitable and solvent based on these projections. The Company continues to hold sufficient cash and will continue to do so, ensuring that there are adequate funds to meet claims obligations as they fall due. CIEL is a profitable business and pays a profit commission to Collinson Insurance Solutions Europe Limited ("CISEL") for insurance and administration services. It is therefore dependent on CISEL and the services it procures from the Collinson Group to manage policy administration and claims processes as well as supporting functions to carry out the role of an insurance company.

The Company has also reviewed its arrangement and inter-dependence with fellow subsidiary undertakings, including the Company's managing general agent and insurance service company, Collinson Insurance Services Europe Limited, upon which there is a significant reliance to enable the Company to deliver the services to its ultimate clients, including the provision of insurance administration services. Where there was such reliance, the Company performed those actions it felt necessary to satisfy itself that those fellow subsidiary undertakings had the economic and operational resources to continue to meet their obligations to the Company. This has consisted of enquiries in respect of the solvency and liquid funds as well as consideration of their scenario and stress testing in relation to the impact of the pace of recovery from COVID-19.

These impacts of Covid-19 on the volumes and the underwriting performance are included in this report.

### Any other matters

There is no other information to be submitted.

## A.2 Objectives and Strategies

The business objectives have been laid out under Section A.1.

As part of the ongoing ORSA process, The Board agreed to have a 3-year planning period for the Group being 2022 as the short term, 2023 and 2024 in the medium term. The Board is of the opinion that forecasting further than 2024 is difficult due to uncertainty resulting from the market conditions. Notwithstanding this uncertainty, the Board is satisfied with the action plan in place as a result of Covid-19 and its ability to remain a going concern.

## A.3 Underwriting Performance

### Overall Performance for Financial Period ended 30th April 2021

As the Parent did not generate any revenue, it reported a loss of €10,474 (2020: €10,644) for the year ended 30 April 2021 arising from the administrative expenses it incurred.

During the year ended 30 April 2021, the Company reported gross written premiums of €24,389,059 (2020: €38,733,938), of which €17,393,385 (2020: €32,850,495) was ceded out to reinsurers. The drop in the volumes of premiums follows the unprecedented turmoil caused by the COVID-19 pandemic. Total claims incurred net of reinsurance amounted to €1,303,720 (2020: €1,601,696). This resulted in a net loss ratio of 31.96% (2020: 37.48%) for the financial year under review. Gross claims outstanding and gross claims incurred but not reported (IBNR) reserves at 30 April 2021 amounted to €3,540,776 (2020: €4,165,333).

After factoring in net operating expenses, including acquisition costs, of €1,847,058 (2020: €1,999,869) and administrative expenses of €625,317 (2020: €780,011), the Company registered a profit before tax of €302,988 (2020: loss before tax of €108,014).

Since the final two months of the previous period, the Group has been exposed to the risks triggered by the Covid-19 pandemic. The impact has been seen in the Travel Insurance portfolios with an increase in cancellation related claims and a loss of travel related premium with sales of insurance related to global travel impacted due to the Covid-19 lockdown throughout Europe.

Whilst the reinsurance programmes have mitigated some of the financial impact of claims to the Company, the reduction in the sale of Travel Insurance continued throughout FY21 and as a result FY22 will continue to be impacted. As a result, the impact to premium earnings will be seen in FY22 and the unknown pace of recovery also extends this risk further into FY22. The Company has remained committed to carrying out its business plan and is anticipating introducing further new business, with a particular focus on Dental and Travel schemes, during FY22. The existing and new business provides a strong balance of diversification to the Company. Lines of business such as dental and international health have been less impacted by Covid- 19.

The Group's financial position is satisfactory, and the Directors expect that the present level of activity will continue to grow in the foreseeable future. The shareholders' funds of the Group amounted to €7,124,495 (2020: Restated €4,835,167) and reflects the injection of share capital made during the year and the retained earnings generated during the financial year ended 30 April 2021.

The Group maintains a system of governance which is commensurate to the nature, scale and complexity of the Group's operation. The mainstay of the system of governance is the risk management system, which is designed to ensure that all the material risks are identified, managed and mitigated.

The principal risks from the general insurance business arise from; fluctuations in the timing, frequency and severity of claims compared to our expectations; inadequate reinsurance protection; and inadequate reserving.

CIEL manages these risks through an underwriting and reserving policy that is approved by the Board of Directors after having considered the Underwriting Committee's advice.

The table overleaf shows an extract from the Annual Reporting Templates ("ARTs") detailing the underwriting performance by line of business for the last 12 months:

| Non-life | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | Total |
|---|---|---|---|
| | Medical expense insurance | Assistance | |
| **Premiums written** | | | |
| *Gross - Direct Business* | 22,801,474 | 1,587,585 | 24,389,059 |
| *Reinsurers' share* | 16,674,884 | 718,501 | 17,393,385 |
| *Net* | 6,126,590 | 869,084 | 6,995,674 |
| **Premiums earned** | | | |
| *Gross - Direct Business* | 23,835,519 | 2,205,906 | 26,041,425 |
| *Reinsurers' share* | 20,691,147 | 1,271,195 | 21,962,342 |
| *Net* | 3,144,372 | 934,711 | 4,079,083 |
| **Claims incurred** | | | |
| *Gross - Direct Business* | 10,550,800 | (1,101,220) | 9,449,580 |
| *Reinsurers' share* | 8,434,453 | (288,593) | 8,145,860 |
| *Net* | 2,116,347 | (812,627) | 1,303,720 |
| **Expenses incurred** | 959,580 | 447,445 | 1,407,025 |
| **Acquisition expenses** | | | |
| *Gross - Direct Business* | 8,149,866 | 1,026,761 | 9,176,627 |
| *Gross - Proportional reinsurance accepted* | 0.00 | 0.00 | 0.00 |
| *Gross - Non-proportional reinsurance accepted* | | | 0.00 |
| *Reinsurers' share* | 7,190,286 | 579,316 | 7,769,602 |
| *Net* | 959,580 | 447,445 | 1,407,025 |
| **Other expenses** | | | 440,033 |
| **Total expenses** | | | 1,847,058 |

The following table shows an extract from the ARTs detailing the underwriting performance by top 5 geographical areas for the last 12 months:

| | IE | NO | NL | IT | ES | |
|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | |
| *Gross - Direct Business* | 19,128,887 | 3,561,693 | 802,298 | 561,736 | 252,677 | 24,307,291 |
| *Reinsurers' share* | 13,120,191 | 3,561,693 | 307,409 | 402,659 | 8,433 | 17,400,385 |
| *Net* | 6,008,696 | 0 | 494,889 | 159,077 | 244,244 | 6,906,906 |
| **Premiums earned** | | | | | | |
| *Gross - Direct Business* | 20,247,506 | 3,409,454 | 658,271 | 1,416,603 | 110,117 | 25,841,951 |
| *Reinsurers' share* | 17,277,692 | 3,409,454 | 270,989 | 1,001,356 | (1,149) | 21,958,342 |
| *Net* | 2,969,814 | 0 | 387,282 | 415,247 | 111,266 | 3,883,609 |
| **Claims incurred** | | | | | | |
| *Gross - Direct Business* | 8,470,632 | 1,993,493 | 359,214 | (1,518,089) | 47,241 | 9,352,491 |
| *Reinsurers' share* | 6,431,608 | 1,993,493 | 149,452 | (429,985) | 0 | 8,145,568 |
| *Net* | 2,039,024 | 0 | 209,762 | (1,089,104) | 47,241 | 1,206,923 |
| **Expenses incurred** | 959,580 | 11 | 208,598 | 187,180 | 44,343 | 1,399,712 |
| **Other expenses** | | | | | | 440,033 |
| **Total expenses** | | | | | | 1,839,745 |

No other business was written in the Home Country. Business written in other territories is immaterial and represents less than 0.1% of total Gross Premium Written.

### Underwriting Expenses

Information on the underwriting expenses of the Company can be found in Note 7 to the Audited Financial Statements of CIEL.

### Group Transactions

Trading transactions with related parties and year end balances arising from these transactions are disclosed in Note 23 to the Audited Financial Statements of CIEL.

## A.4 Investment Performance

The Company's strategy is to hold its assets in A-rated bank counterparties in the form of cash at bank or term deposits. At year end, all investments were held in cash at bank and did not generate any investment income.

## A.5 Performance of other activities

There were no other activities which the Company has to report on.

## A.6 Events after the reporting period

Except for the continued impact of Covid-19 there were no important events or transaction which took place after the financial reporting date which would require disclosure of adjustment to the financial statements.

## A.7 Any other information

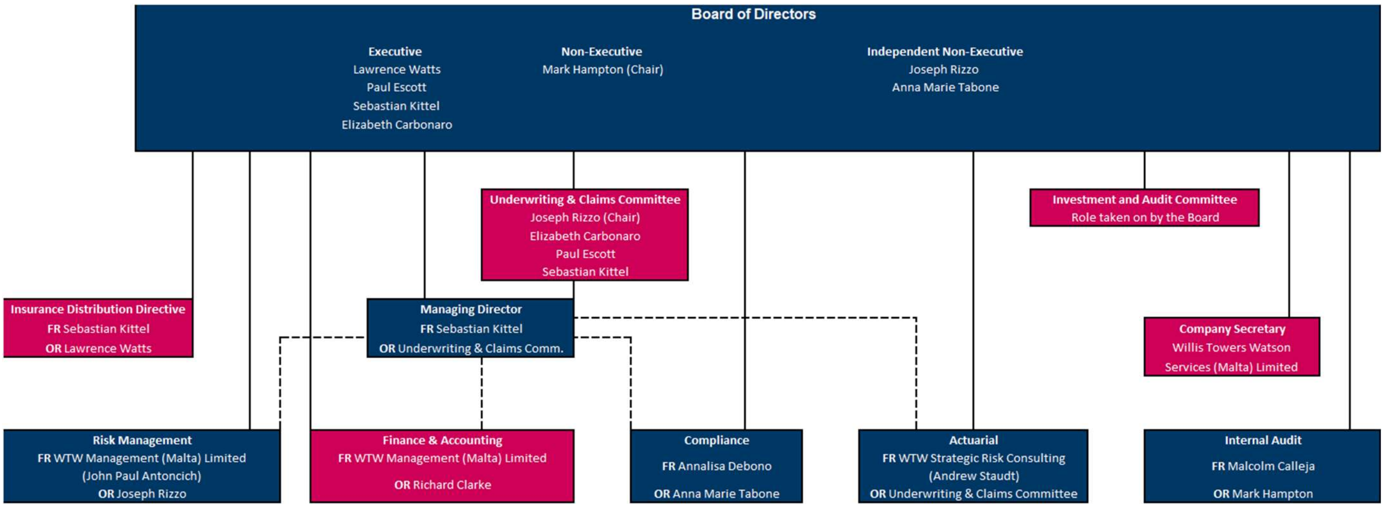
There is no other information to be disclosed under this section.

# Section B: System of Governance

# Section B: System of Governance

## B.1 General Information on the System of Governance

The Organisational Structure of CIEL as at 30 April 2021 is as follows:




### Board of Directors

The composition of the Board of the Company as at 30 April 2021 has been laid out in Section A.1 to this document. The Company is currently undergoing the regulatory approval of Mr Richard Clarke to become an Executive Board Member of CIEL.

The following describes the Board of Directors of CIEL. The Executive Directors make up the Management body.

**Board of Directors Terms of Reference**

The Board of Directors is the body of appointed members who will jointly oversee the activities of the Company.

The Board shall exercise its delegated authority as determined by the Memorandum and Articles of Association of CIEL and any other applicable legislation. The Board answers directly to the Shareholders of CIEL.

The Board of Directors of CIEL as at 30 April 2021 comprised as follows:

| Name | Position | Date of Appointment |
|---|---|---|
| Mark Richard Hampton | Non-Executive Chairman | 20 December 2018 |
| Lawrence David Watts | Executive Director | 29 April 2020 |
| Paul Escott | Executive Director | 20 December 2018 |
| Elizabeth Carbonaro | Executive Director | 20 December 2018 |
| Sebastian Matthias Kittel | Executive Director | 29 March 2021 |
| Joseph Mary Rizzo | Independent Non-Executive Director | 20 December 2018 |
| Anne Marie Tabone | Independent Non-Executive Director | 20 December 2018 |

The Board of CIEL shall be of sufficient size and expertise to oversee adequately the operations of CIEL. The composition of the Board has been designed to ensure:

- that it can adequately discharge its responsibilities and duties
- that it has a proper understanding of, and competencies to deal with, the current and emerging issues of the business
- that it can effectively review and assess the performance of outsourced arrangements.

There shall be a minimum of four Directors and a maximum of ten and CIEL by ordinary resolution may from time to time increase or reduce the maximum or increase the minimum.

The Board of Directors will be made up of a mix of individuals who have the necessary skills and expertise in the following areas:

- **Market knowledge** - the awareness and understanding of the wider business, economic and market environment in which the undertaking operates and the knowledge and needs of policyholders;

- **Business strategy and Business model** - an appropriately detailed understanding of the undertaking's business strategy and model;

- **System of governance** - this includes risk management and control, which means the awareness and understanding of the risks the undertaking is facing and the capability of managing them. Furthermore, the ability to assess the effectiveness of the undertaking's arrangements to deliver effective governance, oversight and controls in the business and, if necessary, oversee changes in these areas;

- **Financial and actuarial analysis** - the ability to interpret the undertaking's financial and actuarial information, identify key issues, put in place appropriate controls and take necessary measures based on this information;

- **Regulatory framework and requirements** - awareness and understanding of the regulatory framework in which the undertaking operates, and the regulatory requirements and expectations relevant to it and the capacity to adapt to changes which stem from the regulatory framework without delay.

The Board of Directors is made up of a mix of Executive Directors, Non-Executive Directors and Independent Non-Executive Directors.

## Roles and Responsibilities of the Board

- Provide entrepreneurial leadership of CIEL within a framework of prudent and effective controls which enable risk to be assessed and managed.
- Set CIEL's strategic aims, ensure that the necessary financial resources are in place for the Company to meet its objectives.
- Set CIEL's values and standards and ensure that its obligations to its shareholders and others are understood and met.
- Comply with the Memorandum and Articles of Association of the Company.
- Comply with requirements set out in the Maltese Companies Act and Maltese Insurance Business Act (Cap 403) and comply with the General Good Requirements for all classes of business in each country within which CIEL is operating.
- Assume responsibility for the day to day conduct of CIEL's business. Clearly and appropriately apportion significant responsibilities to the Insurance Manager and other third-party providers.
- Oversee the establishment and maintenance of robust and clearly documented systems and controls in accordance with applicable regulations.
- Review and approve business submitted by the Underwriting and Claims Committee.
- Oversee the process of outsourcing, and monitor the discharge of the Compliance, Risk Management, Internal Audit and Actuarial functions.

## Meetings of the Board

*Meetings*

1. Meetings of the Board will be no less than four times annually but will be held as frequently as considered appropriate.
2. All meetings of the BoD and any general meeting of the members of the Company shall be held in Malta unless otherwise resolved by the Directors of the Company.
3. A person is entitled to participate at a meeting of the Board or at any General Meeting by means of a telephone link provided the other members or Directors agree to such participation by telephone. The Chairman of the meeting, in such cases, shall sign on behalf of the person participating by telephone and shall record the fact that all persons present at the meeting have agreed to such telephone participation.
4. The chairman or any member of the Board may call meetings of the Board.
5. A minimum of seven days' notice in writing shall be provided to all Directors of a Board meeting. However, CIEL recognises that from time to time Board meetings may need to be called at short notice. If a Board meeting is called at short notice all Directors must be contacted in writing or by telephone advising them of the meeting and the proposed agenda. Prior approval for the meeting to take place must be obtained from all Directors notwithstanding that a director may not be able to attend a meeting called at short notice. Such approval must be documented in the meeting minutes.

6. Board packs shall be received at least a week before the Board Meeting. Additional documents requiring approval such as policies, agreements etc shall be received outside the Board packs (in accordance with the deadline agreed by the Directors)

*Quorum*

The quorum for decisions of the Board shall be two members, one of whom shall be an executive director and the other a Maltese resident director.

*Attendance*

1. The Chairman (if any) shall preside on each board meeting held.

2. A member of the Board shall be entitled to appoint an alternate in his stead.

3. The chairman, at his/her discretion, may invite other executives to attend and be heard at meetings of the Board.

*Decisions/noting*

1. The Directors may meet together for the dispatch of business, adjourn or otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by a 4/5th majority of votes.

2. No advisers shall be entitled to vote at meetings of the Board.

3. In the case of round robin approvals, a resolution in writing, including through the medium of electronic facsimile, approved by all members, shall be as valid and effectual as if it had been passed at a Board meeting duly called and constituted.

4. Such a round robin approval shall be tabled at the next meeting for noting.

*Minutes*

1. Detailed minutes of all Board meetings shall be prepared with all decisions, discussions and points for further actions being documented. Abstentions or negative votes shall be documented in terms acceptable to the abstaining or dissenting person or negative voter. The minutes of meetings shall provide sufficient detail to evidence appropriate Board attention, the substance of discussions and their outcome and shall be agreed at the subsequent Board meeting. Minutes shall also document the attendance or non- attendance of members of the Board.

2. Minutes of all Board meetings are taken by the Company Secretary and are circulated to all Directors for review in a reasonable timeframe after each meeting.

3. The final draft of the Board minutes of a meeting will be presented to the Board for approval at the next Board meeting. If approved the minutes are signed by the Chairman of the Meeting and kept at the Company’s registered address.

*Board effectiveness*

The Board reviews its effectiveness biennially. Each Director completes a Board Effectiveness Questionnaire and submits it to the Compliance Officer who collates the results and presents at the next Board Meeting.

This was last conducted in January 2021.

*Fit & probity analysis*

The Board of Directors is subject to the annual fit and proper analysis. The purpose of such analysis is to ensure that the Board Members remain fit and proper with respect to their roles. Each Director completes a questionnaire and submit to the Compliance Officer who collates the results and report them at the next Board meeting for discussion. This questionnaire is also applicable to the key functions. This analysis was last conducted in January 2021.

*Audits*

In accordance with Chapter 6 of the Insurance Rules issued by the Authority, as CIEL falls within the definition of a "small and medium size enterprise", the function assigned to the Audit Committee are performed by the Board of Directors as a whole. The composition of the Board satisfies all criteria necessary when the Board takes on such role.

The Board shall ensure that there is a direct and regular interaction between the Directors and

1. the external auditors. It shall be ensured that:

    - as part of the internal audit plan, Key Audit Matters are discussed in the meeting of the Board held in the fourth quarter of the Company's financial year;
    - an interim update is provided to the Directors;
    - final audit results are presented and discussed together with the annual audited accounts at the respective meeting of the Board.

2. the Internal Audit Function. This shall take place during meetings of the Board and it shall be ensured that:

    - Internal Audit shall inform the Board at every meeting in writing about all internal audit activities;
    - Internal Audit shall also report internal audit topics arising from global internal audits performed at the level of the Group in case such internal audit topics are of relevance for the Company;
    - Information on Remuneration Policies and Practices

All Directors are expected at least to attend one Board meeting in Malta and to keep themselves current on Regulatory requirements (Solvency II, AML, CFT, Data Protection, etc.) and insurance issues.

## Information on Remuneration Policies and Practice

The following principles are applied to remuneration within the Company;

- Senior members of staff covered by this policy will be remunerated in a manner which supports the aims of Regulatory requirements.
- Targets and measures will be set which support customer-centric behaviours.
- Senior staff will be remunerated against a balanced set of criteria
- No changes to remuneration will be made without oversight by members of the Board or a Committee with an appropriate level of independence

The Independent Non-Executive Directors have no past or present employment with the ultimate shareholder. They have been selected for their knowledge and applicable regulations in Malta.

It is recognised that the INEDs may have other engagements with other companies. The contract between CIEL and its appointed INEDs states that any potential “conflict of interest” be declared. Conflicts are declared at every Board meeting.

INEDs are bound by confidentiality clauses in their personal contracts which continue beyond the end of the contract.

Following the re-appointment of the INEDs during 2021, there has been no change to the Remuneration Policies and Practice.

## Underwriting and Claims Committee

The Underwriting and Claims Committee of CIEL as at 30 April 2021 comprised as follows:

| Name | Position | Date of Appointment |
|---|---|---|
| Mr Joseph Mary Rizzo | Chairman | December 2018 |
| Mr Paul Escott | Member | December 2018 |
| Ms Elizabeth Carbonaro | Member | December 2018 |
| Mr Sebastian Mattias Kittel | Member | March 2021 |

### Underwriting and Claims Committee Terms of Reference

The Underwriting and Claims Committee ("the Committee") is a Committee of the Board of Directors ("the Board") and is answerable to the Board.

The Committee shall exercise its delegated authority as determined by the Board, subject to the Memorandum and Articles of Association of the Company and any other applicable legislation.

*Composition of the Committee*

The Committee shall comprise Board members and advisers and shall not be composed by less than 4 Members.

The Members of the Committee shall be appointed by the Board and shall include no less than one Member of the Board. The Board shall appoint a Chairman from the Members of the Committee.

The Managers shall be appointed Committee Secretary and shall attend all meetings of the Committee.

The Board shall have the power at any time to add or remove any members from the Committee, and to fill any vacancies created by such removal.

The majority of the Members of the Committee shall be familiar with insurance terms and risk management.

The Board may appoint an external expert to the Committee.

The Chairman of the Committee, shall:

- provide assistance to the Committee Secretary in drawing up meeting agenda and preparing the necessary meeting documentation; and
- peruse the minutes of meetings prior to circulation to Members for comment.

### Roles and Responsibilities of the Committee

To assist the Board in discharging its responsibilities the Committee shall attend to the following:

*Underwriting*

- Determine and implement on behalf of the Company suitable premium and contract terms in respect of the Risks underwritten by the Company brought to it by its' intermediaries network and refer to the Board accordingly
- Review the retained risk, capital adequacy and solvency of the Company
- Review contract wordings
- Identify and assess potential new underwriting opportunities
- Determine and review on an annual basis the Reinsurance Strategy of the Company
- Review Security Ratings of Reinsurers
- Review of agreements with brokers, Reinsurers and other Insurance Advisers
- Provision of advice to the Board.
- Review the underwriting results of each portfolio on a quarterly basis.
- Review the POG process at Group level and UPGC decisions and product information in relation to CIEL products.
- Determine and review, where required the claims policy and practices of the Undertaking and any such activities outsourced.

*Claims*

- Determine and annually review the claims reserving policy of the Company
- Determine and annually review the Company's claims protocol/communications strategy
- Review of major claims incurred, and appropriateness of reserves held

*Actuarial*

- Exercise oversight of the Actuarial Function
- Review the quarterly reporting done by the Actuarial Function including the SCR calculations
- Review the annual Actuarial Function Holder Report, including the Underwriting Opinion and Reinsurance Opinion and present updates and recommendations on action to the Board.

*Delegation of Authority*

- In exercising its delegated authority, the Committee shall ensure that its decisions and recommendations support and promote the safeguarding of the Company's assets, the operation of adequate systems and control processes.
- These terms of reference may from time to time be amended as required, subject to the approval of the Board.

**Meetings of the Underwriting Committee**

*Meetings*

Meetings of the Committee will be no less than four times annually but will be held as frequently as considered appropriate.

The Meetings of the Committee may be held in person in Malta or other form of long-distance conference facility as circumstances might require, provided that the required quorum is met.

The Chairman or any Member of the Committee may call Meetings of the Committee.

Reasonable notice of Meetings and the business to be conducted shall be given to the Members and officials.

Committee packs shall be received at least a week before the Board Meeting. Additional documents requiring approval such as agreements etc shall be received outside the Committee packs (in accordance with the deadline agreed by the Committee Members).

*Quorum*

The quorum for decisions of the Committee shall be two Members.

*Attendance*

If the Chairman of the Committee is absent from a Meeting, any other Member of the Committee may act as Chairman for that meeting, as agreed by those present.

The Chairman, at his/her discretion, may invite other Executives to attend and be heard at Meetings of the Committee.

*Decisions/noting*

A decision carried by the majority of Members present at a Meeting, voting in favour of a decision shall be a decision of the Committee. In the case of an equality of votes, the Chairman shall have a second or casting vote.

No advisers shall be entitled to vote at meetings of the Committee.

The Chairman may, at his/her discretion, refer any matter to the Board for a decision.

In the case of round robin approvals, a resolution in writing, including through the medium of electronic facsimile, approved by a majority of the Members, being not less than are sufficient to form a quorum, shall be as valid and effectual as if it had been passed at a Committee meeting duly called and constituted. In the event that such approval is not unanimous, the resolution shall be valid and effectual without the need to call a Board Meeting.

Such a round robin approval shall be tabled at the next Meeting for noting.

*Minutes*

The Minutes of all Meetings of the Committee, or summaries thereof, shall be submitted to the Board.

Minutes of Meetings shall be taken by the Committee Secretary (the Managers) and shall be reviewed and approved by the Members of the Committee for signature of the Chairman of the Committee.

*Reporting*

The Chairman of the Committee or his representative (a Board Member) shall report back to the Board on matters discussed and decisions taken, which fall within the ambit of the Committee.

The agenda for each such Board Meeting shall provide an opportunity for the Chairman of the Committee to report orally on any matter of importance discussed at the Committee Meeting.

## Key and Critical Functions

CIEL complies with the requirements under Solvency II and the Fitness & Probity Standards to ensure that Key Functions are held by persons with the appropriate knowledge, experience and competence. The insurance undertaking has in place four Key Functions, being the Risk Management, Compliance, Actuarial and Internal Audit Functions. The Risk Management and Actuarial Key Functions are outsourced by CIEL.

The Company has also classified its Underwriting and Claims function as a critical function.

## Risk Management Function

The Risk Management Function is outsourced to Willis Towers Watson Management (Malta) Limited, with Mr Joseph Mary Rizzo acting as Board oversight.

Risk management lies at the heart of CIEL's business activities. The adopted risk appetite reflects the articulated risk profile set by the Board through its risk-return profiling of the identified key risks.

The Board is assisted by Willis Towers Watson Management (Malta) Limited being the outsourced service provider of this Function in setting risk management strategy, in developing a risk management framework of the Company's risk appetite, limits and tolerances, in establishing internal risk management structures, and in ensuring that the necessary resources are available and dedicated to achieving the risk management objectives.

Furthermore, Willis Towers Watson Management (Malta) Limited also assists the Board and other functions in assessing and defining the risks existing in specific risk areas and from those assessments developing written risk management policies and procedures to manage those risks. It also assists the Board in assessing the Company's capacity to absorb risk with due regard to the nature, probability, duration, correlation and potential severity of risks, including looking at risks from different perspectives, such as by territory or by line of business. It also seeks to identify and assess emerging risks and advise the Board thereon.

The Risk Management function assists the Board in determining the acceptable risk limits for each risk type that are determined to facilitate control mechanisms to ensure that limits and procedures are adhered to, and that the Company is operating within the risk appetite parameters set by the Board.

As CIEL operates in a dynamic business environment, the Risk Management function provides a system to the Company to changes in the environment in which it operates and to modify the Risk Management system as necessary.

The Board is further assisted by Willis Towers Watson Management (Malta) Limited in performing the Own Risk and Solvency Assessment.

## Compliance Function

The Compliance Function is carried out by Dr Annalisa Debono, with Ms Anne Marie Tabone acting as Board oversight. Dr Annalisa Debono is the approved Compliance Officer, who is responsible for:

- Establishing a Compliance Policy and set out its planned activities, reviews and monitoring in a Compliance Plan, which is submitted annually to the Board for review and approval;
- Facilitating reasonable access by the Company, its auditors and Regulator to information held by the Compliance Function in connection with the provision of the Services;
- Liaising with the Regulator in relation to changes in existing regulations and guidelines;
- Submitting relevant regulatory returns to the Regulator and observe all reporting requirements imposed upon the Company by Regulator;
- Facilitates communication with the Malta Financial Services Authority on any other relevant topic;
- Providing to new Directors and officers, who are to undertake controlled functions requiring regulatory approval, appropriate documentation for submission to the Regulator, assisting with completion, submission and response to follow-up enquiries in relation to the authorisation process, and submitting the appropriate filing upon the termination of a Director or officers' appointment.

## Actuarial Function

The Board has ensured that an appropriately resourced Actuarial Function is established and maintained within CIEL. CIEL's Actuarial Function is currently outsourced to Willis Towers Watson – Insurance Consulting and Technology with the Underwriting and Claims Committee acting as Board oversight.

Further information on the Actuarial Function is provided in Section B.6.

## Internal Audit Function

The Board has ensured that an appropriately resourced Internal Audit Function is established and maintained within CIEL. The Internal Audit function holder is Mr Malcolm Calleja with Mr Mark Hampton acting as Board oversight. The Internal Audit mission is an independent, objective assurance and consulting activity which adds value to and improves CIEL's operations. It helps CIEL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit activity evaluates the management and governance oversight covering key risks and the design and operating effectiveness of key controls. The output of each internal audit engagement is an audit report covering the overall audit opinion, key observations covering control failing or identified weaknesses and their potential impact, and the actions and timings which management have agreed to remediate.

The Internal Audit Function provides a formal report to the Board at every Board Meeting, typically quarterly.

Further information on the Internal Audit Function is provided in Section B.5.

## Underwriting and Claims Key Function

The Company has defined Underwriting and Claims as a key function. The person responsible for this is the Managing Director, Mr. Sebastian Kittel, with oversight by the Underwriting and Claims Committee

The role will cover the following areas of activity.

**Underwriting**

The Underwriting key function is closely aligned to CIEL's Underwriting Strategy and Reinsurance Strategy

- Assist in collating information and presenting to the Board and Underwriting Committees including:
- Annual underwriting deal reviews,
- Quarterly results reviews,
- Review of Reinsurance, XOL and Quota Share arrangements where required
- Underwriting decisions, including review and analysis of QA.

**Claims**

- Review and sign off on claims and assistance cases over an agreed limit
- CIEL delegates authority for smaller claims to the insurance operations teams to the insurance intermediaries. These intermediaries have an authority structure as standard practice where agents have to refer larger claims to QA managers and the QA managers refer their larger cases to CIEL Managing Director.
- CIEL also has schemes where claims handling is outsourced to a TPA up to certain limits. Claims above these limits will also refer to the CIEL Managing Director.
- Given the diversity of average claim sizes of our products, these limits may need to differ by product. The table below illustrates the limits in place per scheme:

| Product / LOB | Scheme | CISEL Outsourced Claims | | Externally Outsourced Claims | Referred to CIEL GM |
|---|---|---|---|---|---|
| | | Agents handle claims below | QA managers approve claims below | Claims below | Claims above |
| Travel | Columbus Italy<br>Skyscanner<br>Globelink | €1,000 | €20,000 | N/A | €20,000 |
| Health | Vhi Health / TTESA | €1,000 | €20,000 | N/A | €20,000 |
| Dental | Norsk | N/A | N/A | NOK 40,000 | NOK 40,000 |
| Motor<br>Assistance | Cover Genius<br>CDW | N/A | N/A | €3,000 | €3,000 |
| Motor | Strategic | N/A | N/A | €2,000 | €2,000 |

- These thresholds are reviewed annually to ensure they remain proportional for the risk and claims activity of CIEL schemes.

## Review / Adequacy of Systems of Governance

The Board of Directors of CIEL are satisfied that the systems of governance in place are appropriate given the Company's risk profile and commensurate with the nature, scale and complexity of its operations.

During the year under review, the Board approved the formation of a Risk Committee. The Company is still seeking regulatory approval for the approval of the Chairperson of the committee. In the interim, the Risk Management Working Group continues to meet to review and provide recommendations to the Board of Directors on all matters related to risk management.

There has been no material change to the underlying System of Governance of the Company since incorporation.

# B.2 Fit and Proper Requirements

The Company has a Fitness and Proprietary policy in place which defines the manner in which it assesses these requirements as detailed below.

The Relevant Personnel within scope of this section are the following:

- Persons who effectively run the Company such as Directors;
- Persons responsible for key functions or overseeing key functions where the function is outsourced
- Qualifying shareholder
- A person within the management structure designated to be responsible for the distribution of insurance and/or reinsurance products.

**Fitness:**

1. Every Relevant Person must be fit for their role and responsibilities and hold the qualifications, knowledge and experience relevant and necessary to ensure that the role is managed in a professional manner with the necessary degree of management and technical competence.

2. The Members of the Board of CIEL collectively must possess the required qualification, experience and knowledge:

   - of insurance and financial markets relevant to the operations of the Company;
   - of the business strategy and business model of CIEL;
   - of CIEL's system of governance;
   - to perform required financial and actuarial analysis in respect of CIEL;
   - of the regulatory framework and requirements applicable to the Company; and
   - generally, to be able to provide for the sound and prudent management of CIEL.

3. The appointment and continuing engagement of any Relevant Person must comply with the fitness elements as set out within the applicable MFSA rules and guidelines.

**Propriety:**

1. The honesty, financial soundness and reputation of every Relevant Person must be assessed by the Company to determine that they are of good repute and integrity, based on relevant evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects, regardless of location but taking account of any applicable period of limitation in respect of any committed offence.

2. The appointment and continuing engagement of any Relevant Person must comply with the probity elements of the aforementioned MFSA rules and guidelines.

## Roles and Responsibilities

***Board*** – The Board is responsible for:

1. The approval and periodic review of the Fitness and Probity policy

2. Overseeing the implementation of the Fitness and Probity policy.

3. Establishing CIEL's Relevant Persons, including any additional key function to be designated for the purposes of paragraph (v) of Section 3 of the policy, taking into account the nature, scale and complexity of the risks inherent in the business, the nature of the relevant function and its organisational structure.

4. Assessing (pre-appointment and at least annually thereafter) the fitness and propriety and approving any new or ongoing appointment of each Relevant Person.

5. Suggesting the removal of any Relevant Person from their key function role if a material issue arises.

6. Designating a Relevant Person to have overall responsibility for overseeing any outsourced key function's Relevant Persons and to challenge and monitor the performance and results on a regular basis.

***Compliance Officer*** – The Compliance Officer is responsible for:

1. Maintaining adequate documentation, whether as hard or soft copy, of the Company's Relevant Persons and a file of all supporting documents;

2. ensuring that all notifications required to be made by CIEL to the MFSA in respect of the appointment or removal of a Relevant Person are submitted in the prescribed manner and within the prescribed time limit;

3. assisting the Board in the performance and documenting of pre-appointment, appointment and ongoing fitness and propriety assessment of Relevant Persons;

4. monitoring and reporting to the Board on the execution and implementation and any identified breaches of this policy.

5. Ensuring the proper implementation of policies and procedures, so that the management person responsible for CIEL's insurance distribution activities (the "relevant person") as well as any employee of the Company directly involved in the carrying out of insurance distribution activities (the "relevant employee") perform their duties adequately in accordance with the requirements of Chapter 7 of the Insurance Distribution Rules;

6. Ensuring that the Board of Directors assesses the relevant person's and the relevant employee's knowledge and ability against the requirements set out in Chapter 6 of the Insurance Distribution Rules.

## Reporting Requirements

To assist the Board in overseeing the execution and implementation of this policy, the Compliance Officer will report to the Board on the Fitness and Propriety of CIEL at least on an annual basis.

# B.3 Risk Management System including the ORSA

CIEL has established and embedded a consistent risk management framework, supported by appropriate Board policies and procedures to manage the key risks to the business. Where relevant, policies and procedures have been aligned to the current regulatory requirements under the Solvency II ("SII") regime. A key part of the CIEL's Risk Management Framework is the way the business collectively manages, controls and reports risk at every stage throughout its governance structure. The governance framework is based upon the "three lines of defence" model and seeks to provide a formal and robust structure to enable risks to be identified, assessed, controlled and mitigated; reported and monitored.

During the year under review, the Company revisited and upgraded its Risk Management Framework and introduced a Risk Appetite Framework. The Company also refined its Risk Appetite Statement and Risk Register. These changes were carried out in order to align the risk management system of the Company to the system utilised by the Insurance Division across the Collinson Group. Such change simplifies the management and reporting of risk across the whole Insurance Division of the Collinson Group.

## Risk Management Function

The Risk Management Function of CIEL is responsible for the operational coordination and application of all Risk Management activities throughout CIEL on an ongoing basis.

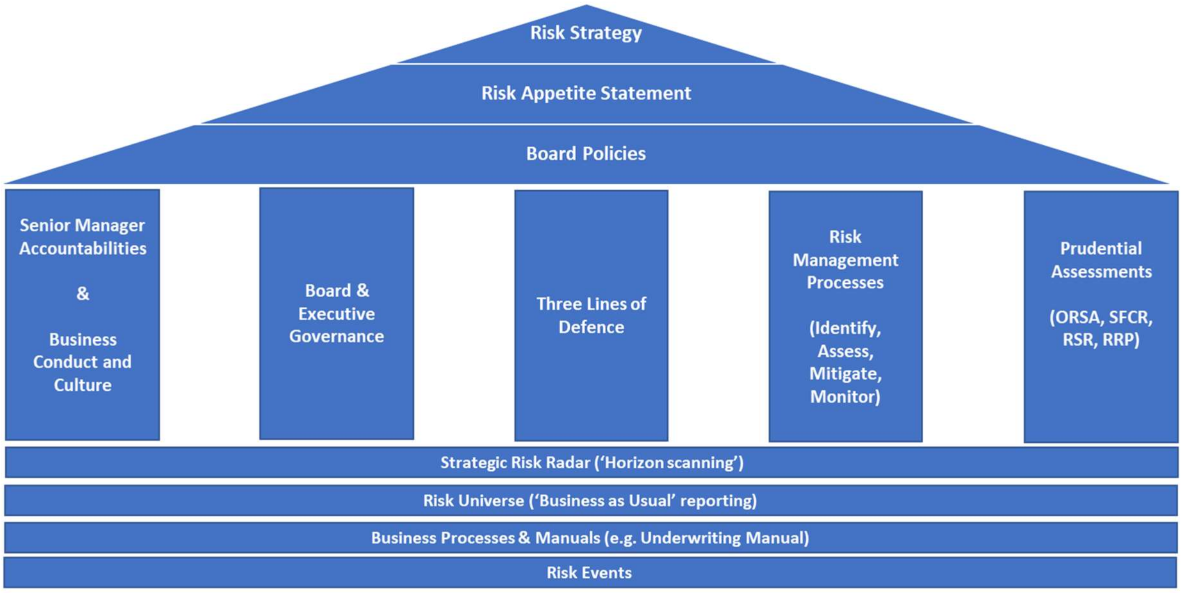
The Risk Management Function reports directly to the Board on a quarterly basis or upon occurrence of an event which could materially impact CIEL's risk profile.

The Function is responsible for coordination of all risk management activities throughout CIEL. The Function is also responsible for providing the Board with assistance and support in development and implementation of the various risk management arrangements within CIEL.

The Board has outsourced the activities of the Risk Function to Willis Towers Watson Management (Malta) Limited in accordance with the CIEL's Outsourcing Policy.

## Risk Management Framework

CIEL has established a risk management framework, supported by a Risk Strategy, Risk Appetite Framework and Board policies, to manage the risks faced by the business. All components of the risk management framework are shown in the illustration below highlighting how each component interacts with another.




## Risk Strategy

The Risk Strategy defines the guiding principles with which CIEL operates to deliver effective risk management in support of its commercial performance and intended customer outcomes. Twenty-one principles have been defined, centred on five themes which provide a coherent structure to articulate the strategic approach to risk management:

**(1) People & Culture, (2) Customers, (3) Data & Systems, (4) Processes & Delivery, and (5) Prudential**

**People & Culture**

- ***Accountabilities led*** approach (with the Senior Manager Regime embedded from inception)
- ***Three Lines of Defence*** operating model (with clearly defined roles & responsibilities)
- Strong emphasis on ***professional conduct*** (i.e. 'Do the right thing')
- ***Culture of effective risk management*** (i.e. risk identification, escalation, mitigation, awareness & learning from events)

**Customers**

- ***Responsible Insurer*** & relationship led business partner
- ***Safe & secure*** guardian of customer data & assets
- ***Fair treatment*** of new & existing customers (with a strong outcomes focused ethos)
- ***Sensitive & flexible*** treatment of vulnerable customers

**Data & Systems**

- ***Data led strategy*** for decision-making & customer relationship management
- ***Automate*** rather than rely on manual intervention (with preventative controls where practical)
- ***Buy before Build*** – prioritise the use of 'tried and tested' technologies from well-established providers
- ***"Robust" operational resilience*** for systems, business processes & controls

**Processes & Delivery**

- ***Integrated*** risk & control framework
- Robust selection & ***oversight of Outsource Service Providers & suppliers***
- ***Robust change management*** processes
- ***Timely remediation*** (i.e. 'We'll put things right if things have gone wrong')

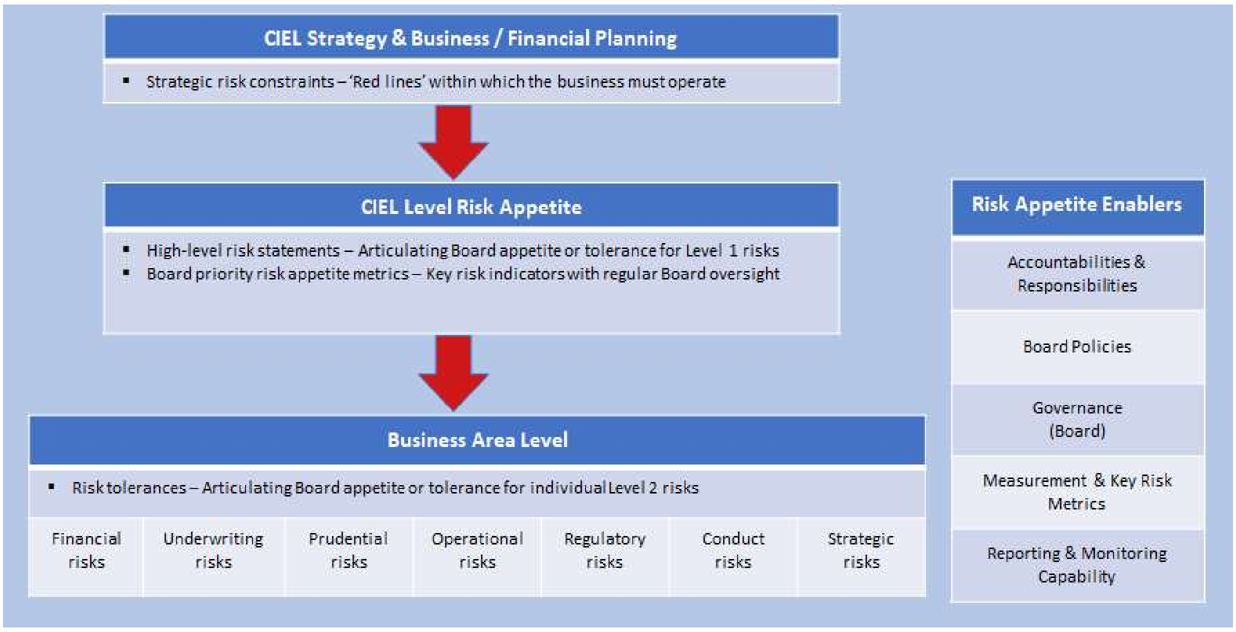
**Prudential**

- ***Own funds***: become self-sufficient with internal growth of own funds rather than shareholder capital injections
- ***Resilient balance sheet*** (i.e. capital & liquidity requirements are met under 'extreme but plausible' stresses)
- ***Stable earnings*** (i.e. profitability isn't volatile / unpredictable)
- ***Robust stress testing*** & scenario analysis
- ***Prudent*** approach to strategic planning & financial accounting / reporting

## Risk Appetite Framework

The Risk Appetite Framework (RAF) defines CIEL's overall approach through which risk appetite is established, communicated and monitored. It also defines the roles and responsibilities of those overseeing the implementation and monitoring of the RAF (including policies, processes, controls and systems). The RAF is complemented by the Risk Appetite Statement (RAS), which defines the risk appetite across CIEL seven primary risk classes and the associated qualitative and quantitative risk limits, applying a two-level hierarchy (i.e. Board and Executive) to the risk limits and reporting.

The diagram summarises the interplay of risk appetite with strategy and business planning, alongside the processes for managing risk appetite and associated key enablers.




The appetite for risk is aligned to the Business Strategy to ensure that key risks are identified, and suitable mitigating controls are implemented and monitored. The risk appetite statement is agreed and reviewed at least annually by the Board and earlier in case of material change in risk profile or strategy. A monitoring programme of risk appetite metrics supporting management in ensuring that CIEL remains within its risk appetite.

CIEL follows a 'three lines of defence' operating model for risk management. This approach is predicated on 'the business' (Line 1) having effective risk management processes in place, coupled with the effective design, implementation and operation of effective controls.

The Risk function (Line 2) provides strategic oversight and challenge, whilst also enabling robust risk management by providing advice, Policies, guidance and tools to aid Line 1's risk activities. Internal Audit ('Line 3') provide independent oversight and assurance on the effectiveness of Line 1 and Line 2 risk management.

The table below highlights the different roles and responsibilities for key risk management processes:

| 'The business' (Line 1) | Risk (Line 2) | Internal Audit (Line 3) |
|---|---|---|
| **(1) Risk Identification**<br>▪ ***Proactively escalate risks & issues to relevant line managers***<br>▪ Proactively escalate potential breaches to line managers & Risk<br>▪ Maintain business team's Risk & Control Self-Assessments | **(1) Risk Identification**<br>▪ Maintain the Risk Universe (a shared vocabulary for 'show on the road' risk categories & definitions)<br>▪ Maintain the Strategic Risk Radar (a 'top-down' tool for key risks)<br>▪ ***Challenge*** Executive team re. incoming / 'horizon' risks | **(1) Risk Identification**<br>▪ Provide independent oversight & assurance on effectiveness of Line 1 & 2 risk identification activities |
| **(2) Risk Assessment**<br>▪ Apply the 5x5 Risk Matrix when performing Self-Assessments<br>▪ Assess materiality of risks & issues when determining next steps<br>▪ ***Ensure the business stays within the Board's Risk Appetite*** | **(2) Risk Assessment**<br>▪ Responsible for the Board's Risk Appetite Statement<br>▪ Maintain the 5x5 Risk Matrix for assessing business areas risks<br>▪ Maintain the Risk & Control Self-Assessment ***methodology & tools*** | **(2) Risk Assessment**<br>▪ Provide independent oversight & assurance on effectiveness of Line 1 & 2 risk assessment activities |
| **(3) Risk Management**<br>▪ ***Implement effective risk mitigation processes (ideally using a mix of preventative & detective controls)***<br>▪ Implement effective actions if a risk is outside of risk appetite<br>▪ Maintain robust regulatory & Policy gap analyses<br>▪ ***Proactively confirm the effective execution of key controls*** | **(3) Risk Management**<br>▪ Provide ***advice & guidance*** on risk management solutions / approaches<br>▪ Provide ***independent oversight*** of Line 1 risk management (e.g. via Compliance Monitoring work, Scenario analysis, etc.)<br>▪ Deliver a rolling programme of Compliance Monitoring<br>▪ Support the Underwriting Control Framework | **(3) Risk Management**<br>▪ Provide independent oversight & assurance on effectiveness of Line 1 & 2 risk management activities |
| **(4) Risk Reporting**<br>▪ Support regular reporting of business area risk profile<br>▪ Proactively monitor key risk exposures (in line with Risk Appetite) | **(4) Risk Reporting**<br>▪ Provide ***Board reporting*** on Risk Universe & Strategic Risks<br>▪ Provide independent oversight reports to Board Risk Co (e.g. MLRO) | **(4) Risk Reporting**<br>▪ Provide independent oversight & assurance on effectiveness of Line 1 & 2 risk reporting activities |
| **(5) Board Policies**<br>▪ Adhere to the Board's Policy Statements & Minimum Standards<br>▪ Proactively request waivers / exceptions if non-compliance exists | **(5) Board Policies**<br>▪ Define the Board ***Policy framework*** & document set<br>▪ Create Policy Statements & Minimum Standards for Insurers<br>▪ Maintain a register of policy waivers & exceptions | **(5) Board Policies**<br>▪ Provide independent oversight & assurance on effectiveness of compliance with Board Policies |
| **(6) Risk Culture**<br>▪ Lead by example<br>▪ Recruit for cultural fit & support new joiners in induction activities<br>▪ ***Apply 'common sense' & professional judgement in personal conduct & treatment of customers***<br>▪ Embed appropriate behaviours in teams, reinforced by responsible objective setting & performance management | **(6) Risk Culture**<br>▪ Lead by example<br>▪ Provide ***new joiner training*** on risk management<br>▪ Provide a rolling programme of ***risk awareness*** 'deep dives'<br>▪ Periodically assess business team culture (e.g. via Compliance Monitoring work or in aftermath of operational incidents) | **(6) Risk Culture**<br>▪ Provide independent oversight & assurance on effectiveness of risk culture activities |

## Risk Appetite Statement

CIEL has in place a Risk Appetite Statement ("RAS"). The RAS sets out the risk appetite and tolerance levels for all key risks over the planning period of CIEL.

CIEL considers the RAS to be the primary element of the Risk Management System, directly linking to the overall Company Strategy and determining the levels retained for each key risk, and also influencing the nature of the controls and mitigation techniques employed to ensure that the risk remains within the tolerable range.

The Board of CIEL is responsible for setting CIEL's RAS. The Board shall periodically review the appropriateness and effectiveness of the RAS and will perform a formal review of the RAS at least annually or upon a material change in CIEL's risk profile.

The RAS includes both qualitative and quantitative aspects for each key risk and is aligned to the planning period of CIEL.

The RAS shall be included in the decision-making processes of CIEL. The Board shall, before finalizing any material decision which could impact the risk profile of CIEL, refer to the RAS for guidance as to the likely effect of the decision on the tolerance levels of CIEL.

The RAS shall also be used to track actual performance against the metrics detailed in the RAS to ensure that no breach in the agreed tolerance levels has occurred.

Monitoring of the actual performance against the metrics identified in the RAS shall be performed periodically by the Risk Management Function and reported to the Board in line with the reporting trigger system included in the RAS.

## Risk Register

CIEL has in place a comprehensive Risk Register to evaluate and assess the risks to which CIEL is exposed.

The Risk Register shall initially assess the risk universe of CIEL on an inherent basis. The controls and risk mitigating techniques employed by CIEL and as detailed in the individual risk policies which act on the risk allow for an evaluation of the risk on a residual basis.

If the risk on a residual basis is deemed to potentially require a material level of capital to accommodate the risk, this risk should be considered a key risk. Any risk deemed to be a key risk shall be considered for inclusion in the RAS by the Board.

The Risk Management Function is responsible for the ongoing maintenance of the Risk Register. The Risk Register will be updated on at least an annual basis and upon the occurrence of an event which may materially impact the Group's risk profile.

A summary of the results of the Risk Register review shall be distributed to the Board upon completion of each review as soon as is practicable and form part of the Risk Management Function's periodic Risk Reporting.

As part of each update, the Risk Register shall be reviewed by the Risk Management Function to ensure that the Risks included represent all the material risks to which CIEL is exposed and that all applicable emerging risks have been appropriately included.

Where an emerging risk has been identified as one which should potentially be included in the Risk Register, the Risk Function will advise the Board of the nature and context of the risk. The Board then shall determine whether the risk in question should be considered as a Key Risk.

## ORSA

CIEL aims to ensure that CIEL is appropriately and prudently capitalized in order to accept the risk to which CIEL is exposed. In order to ensure this, CIEL will perform an ORSA at least annually and upon the occurrence of an event which may materially impact its risk profile. CIEL maintains separate policies on ORSA and Capital Management which are considered in the performance of the ORSA.

### ORSA Objectives

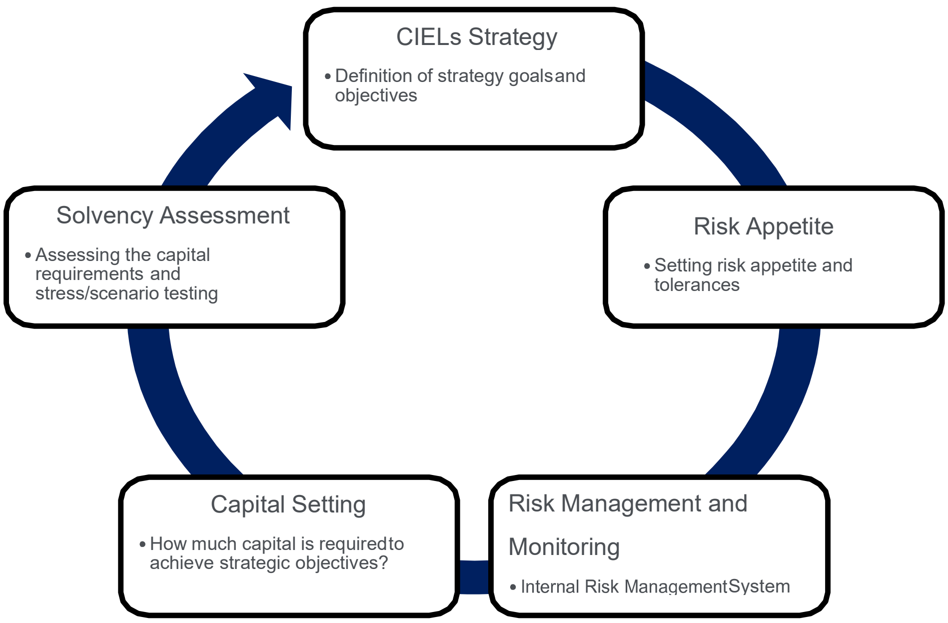
The ORSA process supports the BoD in achieving their strategic objectives by taking a structured and combined approach of business strategy, risk management and capital management. Thus, within this context, the prime purposes of the ORSA processes are to:

- Provide the BoD and individuals involved in the decision-making processes and management of CIEL with an assessment of whether risk management and solvency position are currently and prospectively adequate;
- Serve as an essential insight for any strategic decision to be made;
- Serve as a supervisory tool by providing a detailed understanding of the evolving risk exposure, solvency position and capital planning of CIEL to the Malta Financial Services Authority.

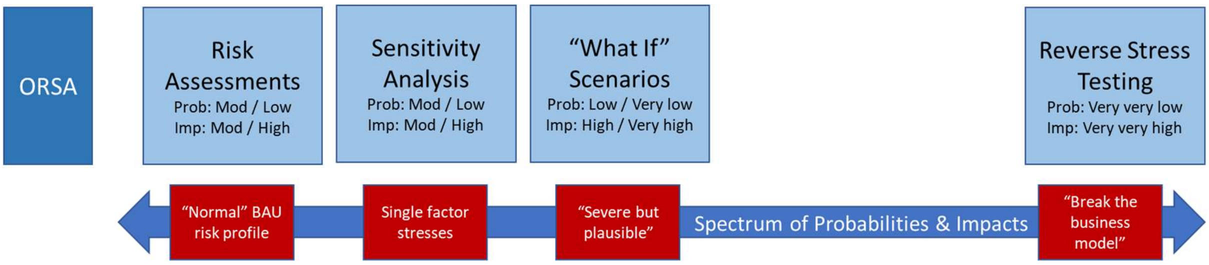
### ORSA Timing and Frequency

CIEL undertake an ORSA process, at least annually, to demonstrate the adequacy of the available capital, the Risk Appetite and the appropriateness of the risk limits which are assessed for the business planning period, considering the evolving risk profile. It will be re-performed on an additional ‘ad hoc’ basis in the event of significant change in the risk profile or business plans. Depending on the trigger and initial impact assessment, either a full or a partial ORSA (focused on the triggering event whilst keeping other variables constant) will be conducted.

The diagram below depicts the ORSA process that the Group has embedded within the Insurers:



An integral element of the CIEL's risk management framework (included with the ORSA) is the stress and scenario testing of the business model and its key assumptions through sensitivity analysis and 'extreme but plausible' scenarios.




- **ORSA**: Identifies the CIEL's capital requirements in delivering the business strategy and includes in 'extreme but plausible' stress scenarios and forecasts the adequacy of its capital holdings against these requirements.
- **Stress tests**: These generally assess the impact of a change in a single risk factor. Tests were performed that included both negative and positive results on the 3-year forecast view of SCR.
- **Scenario tests**: These assess the impact of a change in the overall operating environment resulting from a range of factors or a 'shock'. The tests are considered relevant to CIEL's underwriting portfolio and operating model.
- **Reverse Stress tests**: These assess the scenarios and circumstances that would render AIL's business model unviable and encourages management to identify pre-emptive measures that would be applied in such scenarios.

A range of stress and scenario testing, which is "severe but plausible" to CIEL's Base Case Capital model to understand the impact of these sensitivities.

## Risk Reporting

The Risk Management Function reports to the Board at every Board meeting. At the beginning of the year, the Risk Management Function will lay out the Risk Management Plan for the upcoming 12 months, with the key tasks which it envisages will need to be completed. During the year, the Risk Management Function will update the Board on the progress of actioning the plan and also report on other risk management tasks such as the outcome of the Risk Register review, the results of the comparison of the RAS to actual results, an update on emerging risks and the ORSA report. The Risk Management Function also reports the outcomes of the Risk Management Working Group meetings and any recommendations for discussion and approval by the Board of Directors.

The report contains both qualitative and quantitative aspects and covers all key risks of CIEL.

The Risk Management Function provides a report to the Board based on the occurrence of an event which materially alters the risk profile of CIEL or if the tolerance level triggers are breached.

The Risk Management Function advises the Board on the quality of the data used in the review of the Risk Management System, including any deficiencies that may have been identified during the course of the review.

# B.4 Internal Control System

Internal control is defined as a process determined by an organisation's structure, work and authority flows, risk profile, people and management information systems, designed to help the organisation accomplish specific goals or objectives.

The purpose of an internal control system is to have in place a coherent, comprehensive and continuous set of mechanisms which are designed to secure the following:

- Effectiveness and efficiency of the undertaking's operations, leading to improved performance and error reduction
- Alignment of the Company's activities with its business objectives by ensuring resources are correctly and prudently allocated
- Safeguarding of the Company's physical and monetary assets against error, fraud, theft and unauthorised use, acquisition or disposal, by quick identification and systemic prevention of, and formal responses to, these activities.
- Availability, reliability and accuracy of financial and non-financial information, ensuring proper financial reporting, by maintaining accurate and complete records required by legislation, regulation, the Board and the Company.
- Provision of timely and accurate management information critical to sound management practices and decision making
- Compliance with applicable laws, regulations and administrative provisions.
- Reduction of exposure to risks by minimising the chance of unexpected events

The guiding internal control principles are the following:

- The Board is responsible for the approval, application and review of this Internal Control Policy.
- The Board is ultimately responsible for ensuring that the Company has in place an effective internal control system which is commensurate with the nature, scale and complexity of the Company's operations.
- The Internal Audit Function evaluates the adequacy and effectiveness of the Company's internal control system.
- The Compliance Function is responsible for the review and monitoring of the application of internal controls relating to compliance risk.

The Company will ensure that appropriate levels of Internal Controls are present within the organizational structure, work and authority flows, resource utilization and information systems.

This will be achieved by:

1. Ensuring the presence and application of individual internal policies, procedures and guidelines for each of the critical functions and activities of the Company;

2. ensuring that adequate approval procedures, authorization authorities, verification, reconciliations, and review procedures are in place for each function or activity and are adequately documented and communicated;

3. ensuring that adequate controls are in place pertaining to safeguarding the integrity and protection of information;

4. ensuring sufficient monitoring mechanisms are in place to facilitate assessments of the effectiveness of the controls in place; and

5. the activities of the Compliance function are in place, the Compliance Policy is being applied and the Compliance Plan is being implemented.

The Compliance Function, in the discharge of its duties shall report to the Board as detailed in CIEL's Compliance Policy.

The Internal Audit Function will review, evaluate and report on its review of the Internal control System to the Board as outlined in the Internal Audit Charter.

Any relevant findings or recommendations identified by the external auditors during the discharge of their duties shall be reported to the Board in line with standard audit practices, and any such finding shall be considered by the Board together with the recommendations and findings of the Internal Audit Function.

Upon the event of the identification of an internal control weakness or failure, the Board shall decide upon the remedial action or amendment to the applicable internal controls.

## B.5 Internal Audit Function

The Board acknowledges that the internal controls and system of governance of CIEL must be supplemented by an effective Internal Audit Function that independently evaluates the control systems within the Company.

The Internal Audit function periodically evaluates the adequacy and effectiveness of the internal control system.

Internal Audit is governed by an Internal Audit Charter that defines the role, level of professionalism, authority, structure, independence and objectivity and responsibility of the function. The charter is reviewed and approved by the Board on an at least annual basis.

The function forms the CIEL's third line of defence. It operates in accordance with The Institute of Internal Auditors' mandatory guidance including The Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

The function reports into the Board, which is chaired by a Non-Executive Director. This reporting structure delivers independence to Internal Audit in line with the provisions of the Insurance Business Rules.

The Internal Audit function creates an Internal Audit Plan on a bi-annual basis following a risk assessment process which includes:

- A review of the risk register;
- Consideration of functions/operations impacted by recent or upcoming changes; and
- Interviews with senior management throughout the entire business.

The Internal Audit Plan is frequently evaluated to determine that it is relevant and appropriate, in particular to changes that significantly impact on the business environment such as changes in management strategies, external conditions, major risk areas, or revised expectations in respect of achieving the business objectives. Any proposed amendments or updates to the Internal Audit Plan are submitted to the person with responsibility for oversight for review and approval. The Board of Directors reviews and approves the Internal Audit Plan. Internal Audit activity evaluates the management and governance oversight covering key risks and the design and operating effectiveness of key controls. The output of each internal audit engagement is an audit report covering the overall audit opinion, key observations covering control failing or identified weaknesses and their potential impact, and the actions and timings which management have agreed to remediate.

The Internal Audit function derives its authority from the Board. Internal Audit aims to promote effective controls. To achieve this, internal audit is authorised, in the course of its activities, to;

- have access to, or make enquiry into, all of the Company's records, information and assets which it considers necessary for the performance of its functions;
- require all members of staff and outsourced service providers to supply such information and explanations as may be needed within a reasonable period of time;
- have direct access to the Board;
- be able to review all operational areas or levels within the Company or its third-party service providers.

In particular, the Board ensures the establishment and renewal of the audit plan, the Internal Audit policy, and other written policies and procedures in respect of Internal Audit. The Internal Audit Function continuously ensures the professional competence and training of the staff and that the necessary resources are available for the function to discharge its duties.

The Internal Audit function reports to and advises the Board on the performance of the internal control system and on the achievement of the Internal Audit functions' objectives. In particular, it informs the Board about the progress of the audit plan. As part of its supervisory tasks the Board reviews the organisation and resources (both in terms of outsourced provider of internal audit services to CIEL and otherwise) of the Internal Audit function, the audit plan, activity reports, and a summary of internal audit's recommendations and the status of their implementation.

## B.6 Actuarial Function

The Actuarial Function adopts the following approach:

### Coordinates the calculation of technical provisions

In order to coordinate the calculation of technical provisions, the Actuarial Function:

- Applies methodologies and procedures to assess the sufficiency of technical provisions ensuring that their calculation is consistent with the underlying principles of Solvency II;
- Assesses the uncertainty associated with the estimates;
- Uses judgement whenever this is needed, making use of appropriate information and experience of the persons that are in charge of the function;
- Ensures that problems related to the calculation of technical provisions arising from insufficient data quality are dealt with appropriately and that, where it is impracticable to apply common methods of calculating technical provisions because of insufficient data quality, the most appropriate alternatives to common methods applied are found, taking into consideration the principle of proportionality;
- Ensures that homogeneous risk groups for an appropriate assessment of the underlying risks are identified;
- Consults any relevant market information and ensures that it is integrated into the assessment of technical provisions;
- Compares and justifies any material differences among the estimates for different underwriting years; and
- Ensures that an appropriate assessment of options and guarantees embedded in liabilities is provided;
- Ensures that calculation of technical provisions is done in accordance with the Company's strategy

### Ensures the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions

In order to ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions, the Actuarial Function not only assesses the general suitability of the methodology or underlying model for the calculation of technical provisions as such, but also decide whether they are appropriate for the specific lines of business of CIEL, for the way the business is managed and for the available data.

### Assesses the sufficiency and quality of the data used in the calculation of technical provisions

In order to assess the sufficiency and quality of the data used in the calculation of technical provisions, the Actuarial Function has regard to the objectivity, reasonability and verifiability of management actions included in the calculation of technical provisions. It also assesses whether information technology systems used in actuarial procedures sufficiently support these procedures.

### Compares best estimates against experience

In order to compare best estimates against experience, the Actuarial Function assesses whether past best estimates of similar risks written by other group companies have proved sufficient and to use the insights gained in this assessment to improve the quality of present best estimate calculations. This analysis also includes comparisons between observed values and the assumptions used in the calculation of technical provisions in order to produce conclusions on the appropriateness of the data used and the methodologies applied on their estimation. Where the comparison identifies systematic deviation between experience and the best estimate calculations of insurance company, CIEL makes appropriate adjustments to the actuarial methods being used or the assumptions being made. The results of these comparisons are reported to the administrative, management or supervisory body, given their relevance for the comprehension of the calculations performed and to support future decisions regarding this issue.

These comparisons are a practice not only of the Actuarial Function but also of the Risk Management Function, and its area of application may be extended.

### Informs the Board of the reliability and adequacy of the calculation of technical provisions

The Actuarial Function informs the Board of the reliability and adequacy of the calculation of technical provisions.

This is not limited to expressing an opinion on these technical provisions but includes the degree of uncertainty about the ultimate outcome and the circumstances that might lead to a significant deviation from the provisions made. The Actuarial Function also sets out how it arrived at its opinion and clearly states and explains any concerns it may have as to the technical provisions being sufficient.

The reliability of the calculation of the technical provisions depends on adequate and good quality data. Therefore, the assessment of the sufficiency and quality of the data used in the calculation is information that is included when the Board is informed of the reliability and adequacy of the calculation.

The Actuarial Function also assesses the level of appropriateness, accuracy and completeness of the available data and conveys recommendations on improving data quality, where appropriate. It may consider there is a need to introduce adjustments to the historical data, not because the data per se is considered inappropriate, but because it could be necessary to increase the level of its appropriateness for the purpose of the application of specific methodologies.

In this context the Actuarial Function would provide judgment as to how much credibility should be assigned to historical data and to prospective assumptions.

This judgment would be based on a careful analysis of the underlying liabilities, relevant market data, CIEL's experience, especially with the portfolio concerned, and relevant qualitative information.

Reporting on the reliability of the technical provisions also includes informing the Board on the results of comparisons of the best estimates against experience and comments on the appropriateness of methodologies, underlying models and assumptions used.

Since the Board is ultimately responsible for the reliable and adequate calculation of the technical provisions, the report covers all information the Board needs to form its own opinion on the issue.

In the scope of the coordination of the calculation of technical provisions, the Actuarial Function oversees when a case-by-case approach should be followed, that is, when there is not sufficient quality of data to apply a reliable actuarial method. Also, it produces judgment to establish assumptions and to safeguard the accuracy of the results.

## Expresses an opinion on the overall underwriting policy

The Actuarial Function expresses an opinion on the overall Underwriting Policy and reports these views to the Board and Management of CIEL. In the provision of these opinions the Actuarial Function does not only address possible deficiencies and the possible consequences these may have, but also makes constructive suggestions for improvements.

Commenting on the overall Underwriting Policy does not require expressing views on every single policy, but on CIEL's underwriting in general. The opinion expressed by the Actuarial Function includes the following issues:

a. Analysis of the sufficiency of the premiums to cover future losses, notably taking into consideration the underlying risks, the impact of expenses directly associated with future claims and of unallocated loss adjustment expenses and the impact of embedded options and guarantees on future liabilities; and

b. Considerations regarding inflation, legal risk, and change of mix, anti-selection implemented in specific line(s) of business if applicable.

In forming and formulating its own actuarial view the Actuarial Function is objective and free from undue influence of other functions or the Board and provides its opinions in an independent fashion.

## Expresses an opinion on the adequacy of reinsurance arrangements

The Actuarial Function expresses an opinion on the adequacy of reinsurance arrangements, as well as expected cover under stress scenarios and reports these views to the Board and Management of CIEL. In the provision of these opinions the Actuarial Function does not only address possible deficiencies and the possible consequences these may have, but also makes constructive suggestions for improvements.

The opinion expressed by the Actuarial Function includes an opinion on the adequacy of the reinsurance and other mitigation techniques strategy in relation to the underwriting policy and the adequacy of the calculation of the technical provisions arising from reinsurance.

In forming and formulating its own actuarial view the Actuarial Function is objective and free from undue influence of other functions, the Board and provides its opinions in an independent fashion.

## Contributes to the effective implementation of the Risk Management System, in particular with respect to the risk modelling underlying the calculation of the capital requirements and providing adequate input in the ORSA process and SCR calculation

The Actuarial Function contributes to the effective implementation of the Risk Management System, in particular with respect to the risk modelling underlying the calculation of the capital requirements and providing adequate input into the ORSA process and SCR calculation.

Actuarial methods are applied that call for a detailed understanding of statistical methods and the probabilities of insurance risks, such as claims frequencies and severities, understanding and assessing the use of risk mitigation techniques and understanding volatility and adverse deviation.

An effective Risk Management System uses input from the Actuarial Function (e.g. in the quantification and modelling of risks). This is not limited to a contribution to the ORSA but includes also an involvement in asset-liability management, and risk mitigation arrangements for example.

# B.7 Outsourcing Policy and Principles

CIEL has an Outsourcing Policy whose objectives and high-level principles are;

- that the risks associated with outsourcing are appropriately managed and that CIEL has adequate measures in place to identify, measure, monitor, manage and report these risks in a timely manner as part of the Company's overall risk management system;
- that outsourced service providers will have the appropriate expertise and experience and resources to undertake the outsourced activities to the standards required by CIEL;
- that there is no reduction in the Board of Directors' ("the Board"), and where applicable a relevant sub Committee's responsibility for, or influence over, key functions of CIEL as a result of outsourcing;
- that there is no material impairment of the quality of CIEL's System of Governance as a result of outsourcing a key activity or function;
- that CIEL's approved policies and procedures are adhered to by the outsourced service provider;
- that there is no material impairment of CIEL's ability to fulfil its obligations to stakeholders, nor impede effective supervision by regulators as a result of outsourcing a key activity or function;
- that no material conflicts of interest result from outsourcing a key function or activity;
- that all outsourcing arrangements are supported by appropriately detailed written agreements

A summary of the key outsourced arrangements currently in place from an agents perspective are as follows:

- Claims handling activities for Dental Insurance which are performed by Norsk
- Claims handling activities for CDW and Travel Insurance which are performed by Cover Genius
- A service agreement for insurance administration services with CISEL
- An Insurance Management Agreement with Willis Towers Watson Management (Malta) Limited
- Actuarial agreement with Willis Tower Watson UK to provide Actuarial Function Holder services. The Actuarial Function Report provides an independent opinion and recommendations on the Company's Solvency II Technical Provisions, Underwriting policy and Processes, and Reinsurance processes.

## Roles and Responsibilities

The Board is responsible for the approval, application and review of this Outsourcing Policy.

The Board is ultimately responsible for the approval of and termination of all outsourcing arrangements of critical or important functions and activities.

The Board may delegate the on-going monitoring and supervision of outsourcing arrangements to a subcommittee of the Board.

The Risk Management Function is responsible for assessing the risks associated with the outsourcing of critical or important functions or activities as part of its overall remit to identify, assess, manage, monitor and report the risks of CIEL on an ongoing basis.

## Outsourcing Approach

All functions and activities of CIEL except for core business/management functions namely corporate planning, organisation, management and control and decision-making functions are eligible to be outsourced provided that the outsourcing objectives are achieved in each instance. A service provider may be an entity from within the Collinson Group (Internal Outsourcing).

Sub-outsourcing is allowable on the condition that the sub-outsourced service provider satisfies the Service Level Agreements ("SLA") objectives and subject to approval from the Board.

All outsourcing relationships must be governed by written contracts in accordance with the criteria outlined and the SLA objectives.

### Critical/Important Functions and Activities

Critical or important functions or activities include key functions of CIEL's System of Governance and all functions and activities within the Company that are fundamental to carry out its core business.

The policy determines the criteria to determine whether a function or an activity is material for outsourcing purpose. The key/critical functions of CIEL are the Compliance, Risk Management, Actuarial and Internal Audit. The critical function of CIEL is the underwriting and claims functions.

The Board ensures prior to appointment of a service provider that the service provider has checked the fitness and propriety of all persons working on the function or performing the activity.

### Adherence to CIEL policies

The Board ensures that the outsourced service provider adheres to CIEL's policies and that the effectiveness of CIEL's system of governance is not lessened or compromised by the outsourcing arrangements.

### Outsourcing review procedures

The Board reviews the performance of service providers acting in an outsource capacity on a periodic basis. The results of the review process with results communicated to the Board for consideration.

### Outsourcing Risk

Outsourcing risk is monitored by the RMF periodically in line with CIEL's overall risk management arrangements and procedures and is present in the CIEL's Risk Appetite and Risk Register.

### Service Level Agreements (SLA)

All outsourcing arrangements contain a written, legally binding SLA. The SLA must document all components of the outsourcing arrangement between the parties.

The RMF reports to the Board on the assessment of the risks associated with the outsourcing of the various functions as part of the overall risk monitoring and reporting arrangements of CIEL as part of the ORSA.

## B.8 Any Other Information

### Remuneration of members of the management body

The Executive and Non-Executive Directors representing the shareholder are directly employed by the Collinson Group whilst the two Independent Non-Executive Directors are remunerated by the Company. The executive Director representing the Managers is remunerated by Willis Towers Watson Management (Malta) Limited. Details of the amounts remunerated to Directors and Management can be found in Notes 8 and 9 to the Audited Financial Statements of CIEL.

# Section C: Risk Profile

# Section C: Risk Profile

CIEL operates a business model that is supported by a robust risk management framework that ensures risks are well understood and controlled. This is facilitated by systematic quantification of all risks and a culture that promotes the importance of risk management.

Integral to this is a thorough understanding and articulation of CIEL's risk exposures. Determining the prevailing risk landscape within CIEL allows Management, the Risk Function and the Board to assess the appetite for each emerging risk and to ensure that all are quantifiable and managed consistently with our appetite to risk.

The Directors have considered that the Parent do not add any material risk to the Group. The Parent is a holding company which carries out no activities. The Parent exposes the Group to immaterial counterparty default risk from the minimal cash at bank balance it holds.

The following table shows the overall risk profile of the Group as calculated in line with the standard formula and the percentage breakdown by risk category:

| Basic SCR | 2021 | | 2020 | |
|---|---|---|---|---|
| | EUR | % | EUR | % |
| Market Risk | 463,457 | 10.68% | 345,136 | 14.05% |
| Counterparty Default Risk | 1,035,597 | 23.86% | 786,052 | 31.99% |
| Health UW Risk | 1,444,254 | 33.27% | 541,975 | 22.06% |
| Non-Life UW Risk | 1,397,532 | 32.19% | 783,765 | 31.90% |
| Undiversified BSCR | **4,340,840** | | **2,456,928** | |

The table shows that 65% (2020: 54%) of the Group overall undiversified BSCR is comprised of underwriting risk. The increase in underwriting risk from 2020 is reflective of the higher retention strategy from the removal of intra-group reinsurance and the projected introduction of new business from FY 2022 which is primarily driven by the planned transfer of business from the Great Lakes MGA into CIEL. The Company retains significant outwards reinsurance protections which results in material risk being transferred to its reinsurance panel and as a result incurs a high counterparty default risk charge.

An overview of the key risks associated with the business including an outline of how they are managed is provided below.

# C.1 Underwriting Risk

Underwriting risk is defined as the risk under any one insurance contract which is assessed as the probability that an insured event occurs and the resulting residual impact on CIEL. By the very nature of an insurance contract, underwriting risk is fortuitous.

The terms and conditions of the contract set out the bases for the determination CIEL's liability should the insured event occur. The risks underwritten are of an indemnity nature.

Underwriting risk occupies 65.46% (2020: 53.96%) of CIEL's Undiversified BSCR.

## Direct and Agent business

| Product Line | Client of Intermediary | Scheme Inception Date |
|---|---|---|
| Travel Insurance | Collinson Insurance Solutions Europe Limited<br>Columbus (Italy) | 29 March 2019 |
| Travel Insurance | Globelink | 1 October 2020 |
| Travel Insurance | Skyscanner | 1 October 2020 |
| Health Insurance | VHI Healthcare DAC | 29 March 2019 |
| Health Insurance | TTESA | 29 March 2019 |
| Health Insurance | Norsk Tannhelseforsikring AS | 27 February 2019 |
| Assistance | Cover Genius | 1 July 2020 |
| Motor Excess and Other Motor | Strategic Insurance Brokers (Cyprus) Limited | 29 March 2019 |

CIEL writes personal lines insurance in the International Health, Travel and Motor Excess Waiver. The majority of underwriting risk to which CIEL is exposed is of a short-term nature in view of the lines of business which it writes. The pricing is made up of the costs to cover claims, based on a historical assessment, and the associated cost to service the policy, including regulatory costs.

The risks underwritten are mitigated through outward reinsurance protections with highly rated reinsurers and non-rated intragroup reinsurance through Astrenska Insurance Limited. The intragroup reinsurance was applicable on certain Health and Travel products and was terminated on various dates during financial year 2021 and was subsequently replaced by external quota share reinsurance with A-rated partners. Reinsurance contracts, both quota share and excess of loss, reduce exposure to large individual claims or aggregated losses from a single event and dampen the volatility in the underwriting result. This further mitigates catastrophe risk as well as maintains the residual risk within the risk appetite and tolerance levels of CIEL.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location. The Company's book of business consists of individual policies spread across a number of European countries, minimising concentration risk. This brings an inherent diversification to the risk of claims.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. CIEL has developed its insurance underwriting strategy to diversify the type of insurance risk accepted as far as possible.

For the 2021 ORSA Process, CIEL has included stress and scenario analysis, which will include any underwriting risk sensitivities.

## C.2. Market Risk

Market risk is split into two main categories:

### Liquidity Risk

CIEL is exposed to Liquidity risk, defined as the inability to access funds when liabilities fall due as a result of nature of investments, failure to efficiently and effectively administer and manage cash flows, inability to access funds in current account due to an unforeseen event at Bank / Credit Institution and liquidity difficulties due to insufficient capital as a result of business performance / regulatory changes.

The Company manages its funds in such a manner as to ensure an adequate portion of available funds to meet such calls. Claims are short tail in nature and the Company's operates different bank accounts which is held at call. CIEL assesses its liquidity risk on an ongoing basis and is satisfied with its liquidity position. CIEL has also stressed liquidity risk as part of its 2021 ORSA.

The following policies and procedures are in place to mitigate CIEL's exposure to liquidity risk:

- A Company liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for CIEL. Compliance with the policy is monitored and exposures and breaches are reported to CIEL Board Members. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance contract obligations.
- During the period ended 30 April 2021 and 2020 CIEL was not exposed to significant liquidity risk.

### Asset Liability Management ("ALM")

ALM risk is defined as a change in exchange rates reduce the Balance Sheet value of investments, creating exchange losses in non-EUR claims payments and other exchange losses, or a timing mismatch between assets and liabilities.

CIEL is exposed to currency risk in respect of financial assets and liabilities under policies of insurance denominated in currencies other than Euro. The Company monitors the level of foreign currency exposure across the CIEL Balance Sheet as a whole. Note 6.2.2 to the Audited Financial Statements details the CIEL's exposure to currency risk.

Timing risk is mitigated through having short term investments, being cash held primarily held with minimum A rated credit institutions.

The short-term nature of investments ensures that funds are readily available for CIEL to pay out claims, ensuring the prudent person principle is maintained.

The Group is also exposed to Market risk in the form of its investment in Collinson Insurance Solutions Europe Limited. CISEL is classified as a strategic participation of the Group and attracts Market risk under the Solvency II standard formula. The Group does not consider this risk to be material.

Market risk occupies 10.68% (2020: 14.05%) of CIEL's Undiversified BSCR.

## C.3 Credit Risk

Credit risk is the risk of decreases in value when counterparties are not capable of fulfilling their obligations or when a change in their credit status takes place. Key areas where CIEL is exposed to credit risk are:

- Cash and cash equivalents
- Amounts due from policyholders and insurance intermediaries
- Default of outwards reinsurance providers

CIEL places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits also take due consideration of the solvency restrictions imposed by the relevant Regulations. The investment strategy CIEL considers the credit standing of the counterparty and control structures are in place to assess and monitor these risk thresholds.

CIEL structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparties. CIEL has in place internal control structures to assess and monitor credit exposures and risk thresholds.

CIEL's cash is placed with A rated financial institutions, thereby reducing the concentration of counterparty credit risk to an acceptable level.

The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assess the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

**Credit exposure**

Information on CIEL's credit risk exposures can be found in Note 6.2.3 in the Audited Financial Statements of CIEL.

**Impaired financial assets**

For assets to be classified as 'past-due and impaired' contractual payments must be in arrears for more than 90 days. During the year ended 30 April 2021, an amount of €785 (2020: €14,396) due from an insurance intermediary has been provided for as bad debt.

### C.3.1 Counterparty Default Risk

CIEL is exposed to Counterparty default risk through two main categories;

1. Risk transfer programmes, being outward reinsurance protections purchased. The underlying risk for CIEL is that reinsurance default, causing increased liability retention for CIEL.

2. Credit or other institutions which hold CIEL's funds. The underlying risk is that these defaults, creating financial damage to Balance Sheet, solvency and liquidity

CIEL uses highly reputable and highly rated reinsurance and credit counterparties to mitigate the counterparty default risk.

CIEL will stress the impact of a downgrade of banks as well as downgrade of reinsurers and other XOL providers during the 2021 ORSA.

## C.4 Liquidity Risk

Information on Liquidity has been provided under Section C.2

## C.5 Operational Risk

CIEL is exposed to operational risk through its operational outsourcing relationships, regulatory or legal environments and external events that affect the operation of CIEL.

**Regulatory and Legal risk**

The inadequate compliance with laws, acts, regulations and supervisory requirements would result in potential compliance breach, reputational damage and sanctions. The operations of the Company are closely monitored on a regular basis.

**Operational Outsourcing risk**

The risk that CIEL is adversely affected because its outsourced service providers do not meet their service level agreements. CIEL outsources its functions to a number of outsource providers that are themselves either regulated or required to follow certain standards, thereby ensuring stability and continuity whilst ensuring adequate skillset. In addition, on an annual basis, CIEL conducts an assessment of the outsourced service providers.

**External risk**

The risk that an external event affects the operations of one, or more, of its outsourced providers. CIEL has a tested Business Interruption strategy in place.

The Board recognises the importance of having reliable business continuity plans in place that ensures the continued operation of CIEL with minimum disruption to the business following an unexpected incident. CIEL has outsourced the provision of its key functions to third party service providers.

**Strategic Risk**

Strategic Risk, defined as "failure to set and implement an appropriate strategy", has been assessed as within the CIEL risk appetite. The targets set out within the CIEL 3-year business plan are purposely designed as having a stretch element incorporated within them. Given the new business, organic growth prospects and opportunities seen to date, for new products tailored to meet the needs of identified customer groups, the targets are deemed reasonable.

It is recognised that strategic risk underpins every risk taken by the business and exists simply by virtue of operating within a dynamic business environment. To this extent, whilst not explicitly modelled, the downside (consequences) of inappropriate strategic decisions will be assessed within each risk contributing to the SCR.

**Covid-19 Risk**

The Covid-19 global pandemic which unfolded during March 2020 culminated in the cessation of all global travel which expected to result in high travel cancellation claims and a reduction in travel medical claims. In fact, the sales of travel insurance ceased and some policy premiums had to be refunded. The unknown pace of recovery of the travel insurance schemes and the impact to premium and claims volumes has an impact on the revenue generated by the Company. As expected, this extended to FY21, and is expected to continue into FY22.

The Company's portfolio provides a strong balance of diversification with lines of business such as dental and international health which have been less impacted by the Covid-19 pandemic.

The current economic conditions and specifically the Covid-19 pandemic present increased risks for the Company. In response to such conditions, management have carefully considered the Company's financial and operational business plan and forecasts for the going concern assessment period. The Company has reviewed its reinsurance management, risk management, solvency and liquidity management to ensure the Company remains within its risk appetite. The assessment considered the current capital position of the Company and liquidity requirements, including consideration of the impact of the Covid-19 pandemic. These were then subject to stress testing based on several scenarios, including scenarios incorporating the impact of the Covid-19 pandemic.

CIEL is a profitable business and pays a profit commission to Collinson Insurance Solutions Europe Limited ("CISEL") for insurance and administration services. It is therefore dependent on CISEL and the services it procures from the Collinson Group to manage policy administration and claims processes as well as supporting functions to carry out the role of an insurance company.

The Company has also reviewed its arrangement and inter-dependence with fellow group undertakings upon which there is a significant operational reliance to enable the Company to deliver the services to its ultimate clients, including the provision of insurance administration services. Where there was such reliance, the Company performed those actions it felt necessary to satisfy itself that those fellow group undertakings had the operational resources to continue to meet their obligations to the Company.

**Group Contagion Risk**

CIEL recognises that it relies on the Collinson Group for arranging claims handling, IT and HR services. This operational dependency exposes CIEL to Group risk. CIEL together with its shareholders and intercompany relations, keep this commercial model under constant review.

## C.6 Other material risks

The Company is not exposed to any other material risks.

## C.7 Any Other Information

**Emerging Risks**

CIEL is operating in an always-changing environment, which makes it challenging to anticipate all the risks the Company could face. However, the Company's response to the Covid-19 crisis provides comfort around its ability to respond in an agile way and appropriately to protect the Company against the next significant emerging risk. The Risk Management Function provides assistance to the Board in the identification and assessment of new and emerging risks. This is done together with the Risk Register review and whenever the need arises, such as when a new risk emerges which may impact CIEL.

**Group Consolidation**

CIEL forms part of an insurance group which potentially adds risks outside of the normal spectrum of an insurance company. The Board of CIEL have considered that CHEL does not add material risk to Company. CHEL is an insurance holding company and has no trading activities. CISEL is an insurance intermediary which carries out insurance policy administration and claims handling for the operations of the Company and also services for third party underwriters and accordingly is being treated as a strategic participation when considering the requirements of Article 335 of the Solvency II Delegated Regulation and EIOPA published Q&A ID 649.

# Section D: Valuation for Solvency Purpose

# Section D: Valuation for Solvency Purposes

Assets and liabilities under Solvency II are valued in accordance to the Solvency II Directive. “The primary objective of valuation as set out in Article 75 of Directive 2009/138/EC requires an economic, market-consistent approach to the valuation of assets and liabilities. According to the risk-based approach of Solvency II, when valuing Balance Sheet items on an economic basis, undertakings need to consider the risks that arise from a particular Balance Sheet item, using assumptions that market participants would use in valuing the asset or the liability.”

The values of the assets and liabilities prepared using International Financial Reporting Standards as adopted by the EU (“IFRS”), have been used with some adjustments as outlined in the following sections. These adjustments are in line with the recommendations in the EIOPA Technical Specifications.

References to “the Regulation” in this Section are in respect of the Commission Delegated Regulations (EU) 2015/35.

## D.1 Assets

The following table shows a comparison of asset figures under both Solvency II and IFRS for the Group. A description on the valuation techniques utilised are described below:

| Assets | SII EUR | IFRS EUR | Difference EUR |
|---|---|---|---|
| Deferred acquisition costs | - | 4,362,381 | (4,362,381) |
| Deferred tax assets | 54,544 | - | 54,544 |
| Holdings in participations | 477,130 | 477,130 | - |
| Reinsurance recoverables from: | | | |
| Non-life excluding health | (237,169) | 425,973 | (663,142) |
| Health similar to non-life | 3,266,240 | 10,907,065 | (7,640,825) |
| Insurance and intermediaries receivables | 1,443,283 | 13,590,242 | (12,146,959) |
| Reinsurance receivables | - | - | - |
| Receivables (trade, not insurance) | 272,566 | 386,220 | (113,654) |
| Cash and cash equivalents | 6,999,563 | 6,999,563 | - |
| **Total Assets** | **12,276,157** | **37,148,574** | **(24,872,417)** |

**Deferred tax assets**

Deferred tax assets are valued as the difference between the assets and liabilities recognised in accordance with Solvency II and under IFRS. Deferred tax assets are only recognised on the basis that future taxable profit will be available against which the deferred tax asset can be utilised.

**Deferred acquisition costs**

Acquisition costs comprise all direct and indirect costs arising from entering into insurance contracts. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent those acquisition costs incurred in respect of unearned premiums existing at the end of each reporting period.

There is no concept of Deferred Acquisition Costs in Solvency II. The premium provision only allows for future expense cash flows for those policies already in-force. Initial expenses such as up-front commission occurred in the past and so are not allowed in the premium provision.

**Holdings in participations**

Holdings in participations were valued on the basis of the net asset value of the participation. The net asset value approximates the market value of the holdings in participations in accordance with Article 8 of the Regulation. This has been classified as a strategic participation in the SCR calculation and stressed under the equity risk module.

**Reinsurance Recoverables**

Reinsurance recoverables are calculated using a Best Estimate concept in line with Solvency II valuation techniques as compared to IFRS which considers a case by case estimate at a point in time. Information on the valuation principles of the reinsurance recoverables is provided in Section D.2.

**Insurance and intermediaries receivable**

Insurance and intermediaries receivable for premiums not yet due are recorded in the IFRS Balance Sheet as insurance receivables. Under Solvency II, these amounts are reclassified into the technical provisions, as part of the Premium Provisions, as they constitute a future cashflow. Information on the valuation principles utilised to calculate the Premium Provision are disclosed in Section D.2.

**Reinsurance receivables**

Reinsurance receivables have been valued using the cost approach as this approximates the fair value of the asset. This is in accordance with Article 8 of the Regulation and is consistent with the value approach taken under IFRS. Where these are not yet due, they are included within the future cash flows that from part of the calculation of the Technical Provisions.

**Receivables (trade, not insurance)**

Receivables are calculated using IFRS valuation principles and approximate the fair value of the asset. This is in accordance with Article 8 of the Regulation. The Receivables have been stressed under the Counterparty Default Risk module.

**Cash and cash equivalents**

Cash and cash equivalents were valued using the market price of the asset in accordance with Article 8 of the Regulation and is consistent with the valuation approach under IFRS. These have been stressed under the counterparty default risk module. Cash at bank also includes exposures in foreign currencies which are stressed under the currency risk module within market risk.

### Loss absorbing capacity of deferred tax assets under Solvency II

The value of the SCR may be reduced to allow for the loss absorbing capacity of deferred tax assets ("LACDT"). This adjustment is calculated in accordance with Article 207 of the Regulation and is equal to the change in the value of deferred taxes that would result from an instantaneous loss of an amount that is equal to the Basic SCR plus operational risk. The valuation method is in line with the "Deferred Tax Asset" under IFRS where these can only be recognised on the basis that it is probable that the Company has future tax profits which will be available against the deferred tax asset. In view of the model whereby CIEL retains a small percentage of profits, it has been considered that the LACDT impact would be immaterial and a prudent position to take no LACDT has been adopted.

# D.2 Technical Provisions

The calculation of Technical Provisions under Solvency II is a major change from IFRS and includes changes to the calculation of and provisions for claims outstanding and provisions for premiums. It also introduces the calculation of a Risk Margin which is not considered under IFRS.

Provisions are calculated as 'best estimate' meaning that they are neither under nor over-estimated and are also calculated on a discounted cash flow basis, which takes account of the time value of money. It is also required to incorporate a provision for the expenses that would be incurred in running off the business.

## Valuation results

The valuation was carried out together for each line of business. Under Solvency II, the Balance Sheet is required to be valued on a "best estimate" discounted cash flow basis. This leads to differences in claims provision between IFRS and Solvency II.

The table below sets out the results of the Technical provision under both IFRS and Solvency II basis.

| Gross Technical Provisions | SII<br>EUR | IFRS<br>EUR | Difference<br>EUR |
|---|---|---|---|
| **Technical provisions - non-life (excluding health)** | **(193,720)** | **(73,006)** | **(120,714)** |
| Best Estimate | (263,113) | | |
| Risk margin | 69,393 | | |
| **Technical provisions - health (similar to non-life)** | **3,202,339** | **16,471,638** | **(13,269,299)** |
| Best Estimate | 3,070,670 | | |
| Risk margin | 131,669 | | |
| **Total Gross Technical Provisions** | **3,008,619** | **16,398,632** | **(13,390,013)** |

The table below shows the composition of Best Estimate and Risk Margin by Solvency II Line of Business:

| | Direct business and accepted proportional reinsurance | | Total Non-Life obligation |
|---|---|---|---|
| | Medical expense insurance | Assistance | |
| **Premium provisions** | | | |
| **Gross - Total Direct Business** | 9,737 | (686,970) | (677,233) |
| Total recoverable from reinsurance | 555,154 | (477,459) | 77,695 |
| **Net Best Estimate of Premium Provisions** | (545,417) | (209,511) | (754,928) |
| **Claims provisions** | | | |
| **Gross - Total Direct Business** | 3,060,933 | 423,856 | 3,484,789 |
| Total recoverable from reinsurance | 2,712,870 | 240,418 | 2,953,288 |
| **Net Best Estimate of Claims Provisions** | 348,063 | 183,438 | 531,501 |
| **Total best estimate - gross** | 3,070,670 | (263,114) | 2,807,556 |
| **Total best estimate - net** | (197,354) | (26,073) | (223,427) |
| **Risk margin** | 131,669 | 69,393 | 201,062 |

The Solvency II Directive regulation requires the inclusion of "run-off" expenses to be incorporated into the Solvency II calculation. This has been added to the net technical provisions for the Company.

## Claim Provision

The claim provision under Solvency II is calculated according to the best estimate claims reserve. The provision for claims outstanding is the underlying best estimate, as calculated within the IFRS reserves using a combination of actuarial and statistical techniques, including Chain Ladder and Bornhuetter-Ferguson techniques.

Outstanding claims are projected in line with assumed settlement patterns and discounted using current yield curves to today's value. The claims provision includes incurred losses in respect of the Covid-19 pandemic, for which the Company expects to recover a significant proportion of these losses through its existing reinsurance arrangements. For SII, CIEL must also strip out any margin for uncertainty between the IFRS accounts and the best estimate claims reserve and add an allowance for ENIDs. These "Events not in data" reflect that the technical provisions must have an allowance for "all possible outcomes", including both latent claims and extreme events. The best estimate of the fair value for Events Not in the Data ("ENIDs") is €335k (2020: €424k) on a gross basis and €106k (2020: €66k) after reinsurance for CIEL. The actuaries will continue to monitor the appropriateness of the ENIDs assumption going forwards.

The difference between IFRS and SII valuation is due to the following reasons:

- while the values used for SII are the best estimate, the IFRS valuation includes a margin for probability of volatility from the best estimate,
- addition of run-off expenses for claims,
- allowance for low probability high severity events, referred to as Events Not in Data (ENIDs)

The following table shows the changes between the IFRS and Solvency II Claims Provisions:

| | IFRS EUR | SII EUR |
|---|---|---|
| **Net Claims Provisions per IFRS** | **539,122** | |
| *Solvency II Adjustments* | | |
| Removal of margin | | (32,307) |
| Allowance for ENIDs | | 20,678 |
| Reinsurance Bad Debts | | 1,911 |
| Discounting | | 2,097 |
| **Claims Provision under Solvency II** | | **531,501** |

The details of the settlement patterns are presented in the table below. The yield curves used for discounting purpose are as issued by EIOPA at the valuation date.

| CoB | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| **Assistance** | 40% | 94% | 100% | 100% |
| **Medical Expenses** | 40% | 92% | 98% | 100% |

The amount of recoverables from reinsurance contracts on the claims provision are shown as "Reinsurance Recoverables" in Section D.1. The valuation principles of reinsurance recoverables follow the same valuation principles utilised to arriving to the gross claims provision.

## Premium Provision

The provision for premiums (called the 'Unearned Premium Reserve' under IFRS but the 'Premium Provision' under Solvency II) is different under SII than under IFRS. This is due to the fact that only the expected claims are required to be reserved for under Solvency II along with the ability to offset the expected future claims with premium receivables.

The Insurance Undertaking has included the premium receivables net of commissions of €3,853k (2020: €1,661k) as a negative liability rather than appearing on the asset side of the Balance Sheet as you would expect under traditional accounting methods. The profit on the unearned premiums arises due to the assumed loss ratio being less than 100%.

The following table shows the changes between the IFRS and Solvency II Premium Provisions:

| | IFRS EUR | SII EUR |
|---|---|---|
| **Net Unearned Premium Reserve** | **4,552,468** | |
| **Net Deferred Acquisition Costs** | **(1,387,296)** | |
| *Solvency II Adjustments* | | |
| Profit on unearned premium | | (1,157,761) |
| Unpaid premium not overdue, net of provision for bad debts | | (3,852,641) |
| Run-off expenses allocated | | 1,015,328 |
| Events not in Data | | 69,179 |
| Profit on Bound but not Incepted Business | | (8,434) |
| Discount | | 14,229 |
| **Premium Provision under Solvency II** | | **(754,928)** |

The above approach to calculate expected claims is consistent with the Actuarial Function Report, which is provided by Willis Towers Watson and which follows the roles and responsibilities laid out in Section B.7.

## Risk Margin

A significant difference in calculating SII technical provisions is that it also requires the inclusion of a risk margin in the best estimate liabilities. This is a function of the SCR and is calculated to be €201,062 (2020: €154,326).

Whilst liabilities under SII are measured at best estimate, these are inherently uncertain, and the Risk Margin provides a margin to ensure liabilities are valued at fair value. It can also be described as the amount that an external party would require above the best estimate liabilities in order to take over and meet the obligations.

This is calculated by determining the cost of providing an amount of capital equal to the SCR necessary to support the obligations over their lifetime. The calculation involves approximating the SCR for each future year and then valuing the risk margin on a discounted cash flow basis. A 6% Cost of Capital rate is assumed to determine the cost of providing the funds as defined in SII.

## Uncertainties in the value of Technical Provisions

The key assumptions that may impact the Technical Provisions are detailed below along with the comments regarding the materiality of these assumptions.

**Assumed loss ratio:** Loss ratios are computed by scheme and reviewed and approved by the Underwriting and Claims Committee.

**Settlement period:** Claims settlement patterns are computed by scheme and based on historical data. The settlement patterns feed into the Technical Provisions to split out the future cashflows by period.

**Discount rate:** Current yields are very low and close to zero, which means that almost no discounting is applied to the Technical Provisions given the risks underwritten by the Company is short-tailed.

**Expenses:** The total expense involved in the operation of the Company is small compared with other elements in the calculation of the technical provisions.

**Reinsurance:** It is assumed that the reinsurance will perform as expected, although the technical provisions include an allowance for bad debt.

**ENIDs:** Events not in Data ("ENIDs") are calculated on the assumption that in a 1 in 100-year event that the aggregate is breached for all line of business underwritten by CIEL. The amount calculated is small compared with other elements in the calculation of the technical provision.

### Matching Adjustments, Volatility Adjustments and Transitional Measures

The Company has no matching adjustments, volatility adjustments or transitional measures as at the reporting period.

## D.3 Other Liabilities

Financial liabilities are recognised when CIEL become a party to the contractual provisions of the instrument. Financial liabilities are classified according to the substance of the contractual arrangement entered into.

All financial liabilities are initially measured at transaction price.

| Other Liabilities | SII EUR | IFRS EUR | Difference EUR |
|---|---|---|---|
| Insurance & intermediaries payables | 1,685,093 | 6,829,441 | (5,144,348) |
| Reinsurance payables | 52,264 | 6,288,535 | (6,236,271) |
| Payables (trade, not insurance) | 507,471 | 507,471 | - |
| **Total Other Liabilities** | **2,244,828** | **13,625,447** | **(11,380,619)** |

Approximately €5m of liabilities classed as "Insurance & intermediaries payable" under IFRS are reclassified as Technical Provisions under Solvency II as they relate to future cash flows in respect of commissions and profit shares not yet due.

Similarly, under Solvency II, €3m of liabilities not yet due recognised as "Reinsurance payables" under IFRS are presented as part of the Reinsurance Technical provisions under Solvency II. In addition, Deferred acquisition costs are not recognised under Solvency II and so consequently the reinsurers share of the same for €3m are removed from the Balance Sheet.

All other liabilities have been valued using the cost approach as this approximates the fair value of the liabilities. This is in accordance with Article 8 of the Regulation and is consistent with the value approach taken under IFRS.

# D.4 Alternative valuation methods

No alternative valuation methods have been utilised by CIEL.

# D.5 Any other Information

### Data Quality

Given that CIEL utilises the Solvency II Standard Formula, the integrity of the model is validated by the Actuarial Function. All data pertaining to the calculations is managed, monitored and controlled by the Finance Function in conjunction with the Actuarial Function. There are no data deficiencies noted in the calculation and valuation of Technical provisions for Solvency II purposes.

# Section E: Capital Management

# Section E: Capital Management

## E. 1 Own Funds

### Quality of Capital

The Group aims to ensure that its 'own funds' consists of the appropriate mix of 'tier 1', 'tier 2' and 'tier 3' (including ancillary own funds) capital as defined by Chapter 5 MFSA insurance rules issued under the Insurance Business Act. However as far as possible the Group will aim to have tier 1 capital. The Group's own funds shall take the form of;

a. Ordinary Share Capital

b. Retained Earnings

c. Capital injections from Group

d. Shareholders contribution

e. Unpaid and uncalled Share Capital

f. Any other capital admissible under the above insurance rules

The Group utilised a 3- year time horizon for business planning purposes and the last complete business plan was for 2021-2024.

The following table analysis the movement of Capital between Tiers as at 30 April 2021 and 2020:

| | Tier 1 | | Tier 3 | | Total Own Funds | | Movement |
|---|---|---|---|---|---|---|---|
| | 2021 EUR | 2020 EUR | 2021 EUR | 2020 EUR | 2021 EUR | 2020 EUR | EUR |
| Ordinary share capital | 5,900,000 | 4,100,000 | - | - | 5,900,000 | 4,100,000 | 1,800,000 |
| Capital contribution | 700,000 | 700,000 | - | - | 700,000 | 700,000 | - |
| Reconciliation reserve | 368,166 | (161,593) | - | - | 368,166 | (161,593) | 529,759 |
| Net deferred tax assets | - | - | 54,544 | 56,154 | 54,544 | 56,154 | (1,610) |
| **Total Own Funds** | **6,968,166** | **4,638,407** | **54,544** | **56,154** | **7,022,710** | **4,694,561** | **2,298,752** |

Total own funds are utilised to cover the SCR for the Group. Only Tier 1 Capital is utilised to cover the MCR for CIEL.

The Group's components of own funds are detailed below:

**Tier 1 Capital**

Tier 1 Capital is made up of paid-in ordinary share capital, shareholder capital contribution and the reconciliation reserve. This is of the highest quality and permanent. The paid-in ordinary share capital increased to €5,900,000 (2020: €4,100,000), following an injection of share capital made during the year. The Group has further a paid in capital contribution of €700,000, which has remained unchanged since incorporation.

The reconciliation reserve is made up of the following:

## Reconciliation Reserve

| | 2021<br>EUR | 2020<br>EUR |
|---|---|---|
| **Solvency II Excess of Assets over Liabilities** | 7,022,710 | 4,694,561 |
| **Other Basic Own Funds Items** | 6,654,544 | 4,856,154 |
| **Reconciliation reserve** | **368,166** | **(161,593)** |

The movement in the reconciliation reserve was brought about by the change in valuation of technical provisions between IFRS and Solvency II. These are highlighted in the above and below tables.

The following table provides a reconciliation between the Solvency II Own Funds and the Total Equity as per IFRS:

## Reconciliation of Own Funds to Equity in the IFRS Balance Sheet

| | 2021<br>EUR | 2020<br>EUR |
|---|---|---|
| **Solvency II Excess of Assets over Liabilities** | 7,022,710 | 4,694,561 |
| **Items not recognised under IFRS:** | | |
| Risk margin | 201,062 | 154,326 |
| Deferred tax asset | (54,544) | (18,349) |
| **Changes in valuation due to net best estimate** | (44,733) | 6,116 |
| **Total Group Equity as per IFRS** | **7,124,495** | **4,836,654** |

The difference between the Group's equity as shown and the excess of assets over liabilities as calculated for solvency purposes is:

- the difference between the technical provisions calculated in accordance with the Solvency II requirements and IFRS, which also impacts the presentation of insurance and intermediaries receivables, reinsurance receivables and insurance payables.

**Tier 3 Capital**

Tier 3 capital is made up of the Net Deferred Tax Asset.

None of the Group's own funds are subject to transitional arrangement. No additional ratios to the ones calculated and disclosed in template S.23.01 are included in this document. None of the Group's own funds are transferable or fungible.

## Capital Management

The Company's capital is managed to ensure that all regulatory requirements in relation to capital levels maintained are satisfied. To achieve this objective the following capital requirements are adhered to;

- The Solvency Capital Requirement (SCR) calculation
- The Minimum Capital Requirements (MCR) calculation

The Board ensures that the higher of these two capital requirement assessments shall be maintained. Secondary to fulfilling the Group's regulatory requirements as described above, the Board aims to maximize the employment of capital, subject to the conditions imposed by the Group's investment policy.

The Board formally reviews the utilization of the Group's capital and the overall effectiveness of its capital management policy at least annually.

There are no additional solvency ratios to the ones included in template S.23.01 (i.e. SCR and MCR) to be disclosed by the Group.

## Calculation of Group Own Funds and Calculation of Solvency

Group own funds and solvency capital calculations have been carried out in accordance with Method 1 – Accounting consolidation-based method in accordance with Article 230 of the Directive.

The Directors of CIEL have determined that CISEL should be classified as a strategic participation when considering the requirements of Article 335 of the Solvency II Directive and EIOPA published Q&A ID 649.

## Capital Shortfalls

The Board is confident that in the event of a capital shortfall that the Collinson Group, in response to a justified request for a capital injection, will take the necessary action to ensure that the Group's regulatory capital requirements are met.

In the unforeseen event that the Group faces insufficient levels of Capital to meet its regulatory requirements, the Board shall investigate alternative measures to realign the business plan with its capital base. These measures shall include de risking, amendments to underwriting and risk retention strategy, amendment to pricing strategy and, if necessary, to request additional capital from the parent.

The Group has the following components of own funds as at 30th April 2021 and 2020: Tier 1 basic own funds; ordinary share capital, capital contribution and reconciliation reserve.

The Group's ordinary shares have full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

No deductions are applied to own funds and there are no significant restrictions affecting their availability and transferability. The SCR was calculated using the standard formula.

# E. 2 SCR and MCR

## Solvency Capital Requirement Coverage

| GROUP | | |
|---|---|---|
| **Solvency Position** | **2021 EUR** | **2020 EUR** |
| Group's Own Funds to cover the SCR | 7,022,709 | 4,694,561 |
| Solvency Capital Requirement | 3,682,937 | 2,210,301 |
| **SCR Cover** | **190.68%** | **212.39%** |
| Group's Own Funds to cover the Minimum Consolidated Group SCR | 6,938,166 | 4,638,407 |
| Minimum Consolidated Group SCR | 3,700,000 | 3,700,000 |
| **Minimum Consolidated Group SCR Cover** | **188.33%** | **125.36%** |

The Group uses EIOPA's Solvency II Standard Formula. It does not use Company specific parameters. Simplified calculations are used in computing spread risk within the Market Risk Module in accordance with Article 104 of the regulations. Furthermore, they do not make use of any capital add-ons.

The minimum consolidated Group SCR was calculated in accordance with the Commission Delegated Regulation. The calculation below shows the net best estimates and net written premiums for the year 2021 per line of business utilised in the calculation of the Linear minimum consolidated Group SCR. The minimum consolidated Group SCR represents the Absolute Floor of €3.7million.

The calculation of CIEL's minimum capital requirement is illustrated below:

| Linear formula component for non-life insurance obligations | | Net best estimate and TP calculated as a whole | Net written premiums in the last 12 months |
|---|---|---|---|
| Medical expense insurance | | - | 2,427,677 |
| Assistance | | - | 2,883,885 |
| **Overall MCR calculation** | | | |
| Linear MCR | 359,231 | | |
| SCR | 3,662,694 | | |
| MCR cap | 1,648,212 | | |
| MCR floor | 915,674 | | |
| Combined MCR | 915,674 | | |
| Absolute floor of the MCR | 3,700,000 | | |
| **Minimum Capital Requirement** | 3,700,000 | | |

The SCR and MCR are calculated on the basis of the eligible own funds.

## Solvency Capital Position

The table below sets out the Group's Pillar 1 capital position as at 30th April 2021 and 2020:

| Basic SCR | 2021 EUR | 2020 EUR |
|---|---|---|
| Market Risk | 463,457 | 345,136 |
| Counterparty Default Risk | 1,035,597 | 786,052 |
| Health UW Risk | 1,444,254 | 541,975 |
| Non-Life UW Risk | 1,397,532 | 783,765 |
| Diversification Benefit | (1,439,145) | (756,696) |
| | **2,901,695** | 1,700,232 |

| SCR | 2021 EUR | 2020 EUR |
|---|---|---|
| Basic SCR | 2,901,695 | 1,700,232 |
| Operational Risk | 781,242 | 510,069 |
| LACDT | - | - |
| | **3,682,937** | 2,210,301 |

### Material movements in the SCR and MCR

The Group's Basic SCR increased by €1,201,463. The following are the main changes in the SCR computation:

- Market Risk increased due to an increased exposure to assets and liabilities in foreign currencies and the equity risk has increased due to the increase in the value of the strategic investment in CISEL during the year.
- Counterparty default risk has increased in line with additional holdings in cash at bank and balances with reinsurers.
- Health and Non-Life UW Risk have increased as the Premium and Reserve Risk have increased due to the impact of expected new business into the Group from FY 2022.

Operational risk increased broadly in line with the Basic SCR elements as noted above.

No changes were made to the methodology of the underlying SCR calculation.

The MCR did not change over the period and remained at the level of the absolute MCR (AMCR) of €3,700,000.

The Own Funds available to cover the SCR and MCR has been positively impacted by the injection of share capital made during the year and from the financial results registered during the year under review.

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

Duration-based equity risk sub-module is not used in the Company's SCR calculation.

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

The Group uses solely the standard formula for its solvency capital requirement calculation.

## E. 5 Non-Compliance with MCR and SCR during the period

The Group was compliant at all times with the MCR and SCR requirements during the reporting period. Furthermore, the Board of CIEL approved an ORSA report during 2021 which showed that the Company expects to meet its capital requirements over its planning period.

## E. 6 Any Other Information

There is no other information to report on.

# Annex I: CHEL QRTs

COLLINSON

# Collinson

Collinson is a global leader in customer benefits and loyalty. We help other businesses to acquire, retain and monetise customers across four specialisms of Loyalty, Travel Experiences, Insurance and Assistance. We provide exceptional travel, assistance and insurance products that differentiate value propositions, and deliver loyalty solutions resulting in deeper, more valuable customer relationships. Our solutions drive more profitable customer relationships, enrich their travel experiences and protect what matters and assist in times of need. Our customer benefits products include the original and market-leading airport experiences programme, provided by Priority Pass, as well as travel insurance, international health, dental, home and motor ancillary insurance products and travel risk management solutions. Our loyalty expertise uniquely combines strategy, award-winning technology and programme management to create greater engagement and experiences for our clients' customers.

For over 30 years, we've been chosen by the world's leading payment networks, 1,400+ banks, 90+ airlines and 20+ hotel groups to craft customer experiences that win competitive edge. This enables them to acquire, engage and retain the most profitable, but most demanding customers. Our clients include Air France KLM, American Express, Cathay Pacific, Chase, Hackett, Mastercard, Radisson Hotel Group, RSA, Sephora, UnionPay, Vhi and Visa. In particular, our unique expertise and insights into high earning, frequent travellers allow us to create products and solutions for our clients that inspire greater customer engagement in this lucrative customer segment.

Collinson is a privately-owned entrepreneurial business with 1,700+ passionate people working in 17 locations worldwide.

## Contact Us

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