BaptistInsurance
Experts in church and home insurance

Annual Report

2020

THE BAPTIST INSURANCE COMPANY PLC

Company Registration Number 00083597

ANNUAL REPORT AND ACCOUNTS 31 DECEMBER 2020

Report and Accounts 31 December 2020

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Officers and other company information

Directors	M. N. Hayes BSc, FI Chem. E, FCII *Chair* M. R. Buttrick FCCA, FCT *Deputy Chair* Mrs A. Bishop MBA M. A. Broad MBE D. Lane B.Comm (Hons), Certified Insurance Director A. M. Lawrence BSc, FCA T. J. Rose MBA, C Dir M. H. Tripp BSc, ARCS, FIA
Company Secretary	Mrs R. J. Hall FCIS
Chief Executive Officer	D. Lane B.Comm (Hons), Certified Insurance Director
Auditor	Ernst & Young LLP
Registered Office	Benefact House, 2000 Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW
Company Registration Number	00083597

Directors' Biographies

M. N. Hayes BSc, F I Chem. E, FCII Chair
Born 1946
Appointed to the board in 2006. Managing director of a business and financial consultancy. Formerly a director of Zurich Commercial Business UK. Qualified engineer and Chartered insurer. Non-executive director of a niche Christian bank, a renewable energy business, a property management company and Chairman of Langley House Trust, a Christian charity working with offenders and the homeless. Member of Encounter Church Winchcombe.

M. R. Buttrick FCCA, FCT Deputy Chair
Born 1952
Appointed to the board in 2008. Formerly on the executive of a major UK building society. Qualified accountant and corporate treasurer. Former treasurer and trustee of Tearfund. Non-executive director of a Christian bank. Trustee of the Royal Shakespeare Theatre Pension Scheme. Member of Chipping Campden Baptist Church.

Mrs A. Bishop MBA
Born 1961
Appointed to the board in 2015. Formerly CEO of a regional Christian charity, following a career in marketing and public relations, and currently MD of a company importing Fair Trade products from Sri Lanka. Extensive governance experience underpinned by an Advanced Certificate in Corporate Governance. Currently the Chair of a local Christian homelessness charity. Active member of a local Baptist church.

M. A. Broad MBE
Born 1950
Appointed to the board in 2011. Retired senior commercial manager at HSBC Bank plc. Former treasurer of the Baptist Union of Great Britain and former moderator of the Baptist Pension Scheme Employers Group. Treasurer/Trustee of the Bristol Baptist College and Treasurer/Deacon of Keynsham Baptist Church. Chair/Trustee of the Wellsway Multi Academy Trust, Keynsham, Chair of Governors at Sexey's School, Bruton and Governor of St Patrick's Catholic Primary School, Bristol. Malcolm has 20 years experience delivering trustee training to many Baptist churches, colleges and associations across the country. In 2016 appointed a National Leader of Governance by the Department of Education. Awarded an MBE in the 2009 New Year Honours list for services to Education in Bristol.

D. Lane B.Comm (Hons), Certified Insurance Director
Born 1967
Appointed to the board in 2017. CEO of the Baptist Insurance Company plc and Managing Director of Ecclesiastical Insurance in Ireland. Previously held a number of senior executive roles across UK, Ireland and Europe. Member of the National Development Council of the Wexford Festival of Opera and the Non-life Council of Insurance Ireland. Appointed to the Board of Depaul, Ireland in 2019.

A. M. Lawrence BSc, FCA
Born 1964
Appointed to the board in 2015. Chairman of Bron Afon Community Housing, a dynamic social enterprise focused on improving the quality of life and the life chances of the people of Torfaen, South Wales. Chairman of the Audit & Risk Committee and board member of the Intellectual Property Office, Chairman of the Finance Committee and director of Stonewater Limited (a major housing association). Chairman of the Audit & Risk Committee and director of the Salvation Army Housing Association. Chairman of the Finance & Audit Committee and director of both Samaritans Purse International and Billy Graham Evangelistic Association. A chartered accountant and formerly finance director within the commercial and international development sectors. Member of the Church of the Resurrection, St Mellons, Cardiff where his wife is the Baptist Minister.

T. J. Rose MBA, C Dir
Born 1959
Appointed to the board in 2002. Managing director of a corporate finance boutique. Formerly director of a major City broking house specialising in wholesale financial instruments. A qualified chartered director and non-executive director of the Bible Society Resources Ltd. Deacon of Colchester Baptist Church.

M. H. Tripp BSc, ARCS, FIA
Born 1955
Appointed to the board in 2015. Currently a partner with City Advisory and accountancy firm Mazars LLP and council member of the Institute and Faculty of Actuaries. Formerly Group CEO Ecclesiastical Insurance and before that partner at Ernst & Young, and actuarial firm Watson Wyatt LLP. Recently completed his six year term as a Non-Executive Chair of Unity, a specialist insurance broker belonging to The Scout Association, and also non-executive director of a London Market insurer, he has over 40 years UK insurance industry experience. He is an active Christian, attending a church in Chingford.

Chair's Statement

This statement comes to you after an incredibly challenging year for all of us with the deadly pandemic influence of Covid-19 and its mutations still with us in 2021. Many churches have been affected as they seek to maintain support to their communities, income levels have in many cases reduced but in spite of that there have been some amazing demonstrations of Gods impact on the locations where we are based. Food and meal supplies have been provided, food banks have been extended, volunteer help groups have sprung up and throughout it all there has been some inspirational demonstrations of the love of God into our communities. Almost every avenue of church life has been impacted and as a Company we have been at the forefront in responding to the differing Insurance needs of the Churches and congregations as the effect touched every corner of life as we previously knew it.

Earlier in the year when Covid-19 first became increasingly evident we modelled a range of possible impacts on the UK based Baptist family to assess the effect on churches, members and households of their insurance needs – our worst case scenario was never reached and we had the joy of then being able to support many more outreach activities with grants to either catalyse or extend the reach of the Gospel. More than 10 church plants in UK and Europe, Youth and children’s events and outreach, mental health outreach and support for those churches with a real heart to touch lives in their local community were all a part of our grant programme in the year. In addition we were privileged to act as main sponsor to the Fresh Steam conference “Back to the future” which touched over 700 virtual attendees through the extensive January programme of stimulating talks and inspirational worship.

The year started with extensive storms both physical and financial and at the end of the first quarter the results were looking bleak – since then we have seen an amazing turnaround and finished the year with another encouraging result which we can use to support the Baptist family with grant help and get behind those congregations with a heart to reach into their local areas. In addition to the volatility in the financial markets and increasing storms Brexit hung over the whole of the year with its own uncertainty including any direct impact on solvency levels. All this added to the challenges your Board faced as the triple impact was assessed regularly and responses found throughout the year.

At the time of writing and as reported last year the ease of passporting for financial services continues to be less than certain which we trust will be favourably resolved. The economy continues to be in a downward trend and the threat of higher unemployment continues to dominate the financial press with its potential medium term impact on church incomes. Trade barriers in the form of customs and changing VAT requirements also directly influence the economy post Brexit and we can only wait and assess the longer term impact of this as the country stabilises after the disruptions of the past year.

Turning to the company results I am delighted to be able to report another encouraging year with investment returns well above the standard indices and a positive underwriting performance enhanced by several recoveries from previous underwriting years leading to another good result for your company.

Gross written premium increased by 1.5% (2019 1.6% increase) which is a very acceptable outcome in a marketplace which has been and continues to be competitive in all areas of the business. Retention levels remain high as most Baptist churches value the responsive service and advice from the internal teams and we remain first choice Insurer to the Baptist Family. The majority of Baptist churches have entered into long term agreements providing stability to their costs and also security of support from the Company.

The positive result has enabled us to further increase the amount directed to grants at a time of increasing need across the country. The grants have facilitated once again some ground-breaking initiatives and opportunities to reach people for Jesus and also contributed to the provision of radical and entrepreneurial training in evangelism.

We were able to allocate grants of £291,000 in the year and pay over £363,000 which is the highest amount in 11 years, a further increase over the past two years. We are humbled to have contributed to some outstanding initiatives to reach people with the life changing Gospel in UK, Europe and further afield and to see the impact that we can make with grant support.

Equities had another positive year and experienced progressive increases throughout the year in spite of market volatility and the very shaky first quarter start. Fixed interest returns were steady but unremarkable and in total we enjoyed an investment gain of over half a million pounds for the year. Whilst this was less than achieved in 2019 it was a very creditable outcome and made a further contribution to additional strengthening of the capital base of your company which the Board feel is essential at a time of continued economic turbulence. This ensures that our Solvency II capital remains significantly above the required minimum. We are so grateful to the Investment Committee members who have worked hard to ensure the right investment decisions are made.

We continue to take a conservative view of latent claims which arise from potential exposure relating to historic abuse within both UK and overseas. Considerable press and media comments and investigations rightly place this matter at the forefront of public interest and we continue to support those few individuals in the Baptist community who were unfortunate enough to have suffered under these circumstances.

Chair's Statement

The Grants Committee revised assessment criteria and the web-based application process which has now been fully implemented with help from our two Grants Advisors. This will enable future grant applications to be processed more rapidly and provide better support to those areas of the Baptist Family who have active outreach strategies at the heart of their mission.

We were able to partner again with several of the regional associations to support outreach work with further joint meeting with team leaders being planned in 2021 once the Covid restrictions are lifted. The intention is to promote and investigate better ways to accelerate grant distribution and maximise impact for the Kingdom.

Our steadily increasing support to the European Baptist Federation has continued throughout the year primarily for church planting and we were able to actively support a number of new ventures in both Western and the former Eastern Europe with some outstanding and inspirational progress being made.

I would like to pay tribute to the work of the Directors who serve the Company with skill and capability in a variety of disciplines. We are privileged to have Directors of extremely high calibre who punch well above their weight for a company of our size. This year has seen yet another increase in workload for the Directors who serve to ensure that the Company is well positioned to enjoy a secure capital base whilst fulfilling its role as the provider of Insurance expertise to the Baptist community. We continue to build on our technical, insurance and reinsurance knowledge ensuring we are well-informed of any new regulatory and compliance requirements.

I would also like to pay tribute to the marketing, underwriting, survey and claims teams dealing day to day with our policyholders and without whom we would not have seen the successful result declared above.

In an environment where increased legislative pressures are facing church leadership teams, we are proud to be at the forefront of supporting those local teams as they work through a whole raft of risk assessment, safeguarding and health/safety issues. The risk prevention guidelines continue to be widely used by churches and associations across the country and are a tribute to the skills and capabilities of the professional survey team who travel widely throughout the year supporting church teams in their safety and property management responsibilities. We changed the risk assessment mechanisms in 2020 to a combination of site visits and desk based risk assessments which enabled us to cover more churches and thereby provide increased support.

During the year we again reinforced our sales initiative for new household and manse business and can report that this take up has been encouraging as private household policyholders recognise the value of both the personal touch over the phone and the high quality of competitively priced cover we provide. We still target increased growth in this area and are encouraged that we have seen some steady progress in 2020.

Conclusion
We are grateful to God for another year of success in the business and look to build further on this in 2021. We continue with our marketing initiatives, product launch and further development in our growth and capital strategies and trust to be able to report further progress throughout the year as our strategic work unfolds primarily in new areas of market development.

During the coming year we will continue with the initiative to encourage individual Baptist householders to insure with the company. In this respect we continue to work alongside the Baptist Union of Great Britain, European Baptist Federation, Baptist Union of Scotland and BMS World Mission to further this ambition.

Our key desire remains to fully support the Baptist community with their insurance needs, and in parallel through our grant giving programme spearhead the use of Kingdom finance into areas of Gospel deprivation to see Jesus accepted as Lord in those areas.

We are grateful that as a Board that we can contribute to real heart moving outreach in some of the challenging areas of distress and disadvantage and we trust that in 2021 we can further support the work of life-changing transformation through a knowledge of Jesus Christ as Lord.

M. N. Hayes *Chair*
On behalf of the directors
30 March 2021

Strategic Report

The directors present their strategic report for the year ended 31 December 2020.

Objective and strategy

The Baptist Insurance Company plc (the Company) is a public limited company incorporated, registered and domiciled in England, authorised and regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Our vision for the Company is to be the first choice insurer within the Baptist community and to run a successful insurance business with the highest standards of integrity, helping to create safe environments for worship, witness and service.

We look to generate operating profits through the provision of insurance and through returns on investments, with the goal to maintain or strengthen the Company's capital position. This allows the Company to continue on an ongoing basis and to provide services at a competitive price with the aim of reinvesting back into the Baptist community via the provision of grants.

Business model

The principal activity of the Company is the transaction of fire, accident and ancillary liability insurance. We provide insurance and risk management advice for churches, as well as offering home insurance for Baptist Ministers, church volunteers and church members.

All risks undertaken by the Company are reinsured with Ecclesiastical Insurance Office plc ("EIO"), except eligible terrorism risks which are reinsured with a third party, Pool Re.

To generate sustainable operating profits, the Company looks to achieve an effective cost base in providing our customers with the highest quality of service be it in buying our services or making claims. To this endeavour the Company has outsourced its operational activities to EIO, enabling us to provide our customers with a service from highly trained staff who are experts in their field.

The Board monitor the service levels provided through the outsourced agreement with EIO on a monthly basis to ensure they meet expectations and the Company are receiving value for money. These measures include but are not limited to telephony statistics, customer satisfaction, quotes issued and conversion to policies.

Review of business performance

The results of the Company for the year are shown in the statement of profit or loss on page 20. Key performance indicators are included below.

Gross written premium

Gross written premiums increased to £3,636,260 (2019: £3,581,670) representing an increase of 1.5%. Over the past five years premiums show compound growth of 0.75% per annum.

Claims ratio

Our claims ratio (gross incurred claims to gross earned premiums) of 21.1% (2019: 6.6%) shows a 14.5 point increase on the previous year. The current year's performance is driven by the favourable claims experience against budget during the year despite the storm events earlier on in the year. This compares to an exceptionally low experience in 2019, driven by a number of claim releases.

Profit commission

The reinsurance treaty with EIO continues. The amount receivable for the current year based on the sharing of the net underwriting result was £507,914 (2019: £823,490). The overall performance has been impacted by the favourable claims experience during the year and a lower surplus treaty profit commission receivable, compared to the previous year.

Investment return

Our current investments delivered a positive return. We continue to monitor and review the investment strategy to mitigate the risk of possible future losses. The net investment return was a profit of £657,288 (2019: £1,003,578) despite the challenging market conditions encountered in 2020.

Charitable grants

The aim of the Company and the directors continues to be to support the wider Baptist family. During 2020 grants of £290,889 (2019: £314,417) were approved, and net nil (2019: £72,500) was accrued at year end.

Equity and reserves

The factors outlined above have all had an influence on results for the year. Profit before tax decreased to £683,293 (2019: £1,186,946) and after the impact of tax, has increased reserves by £570,278 (2019: £955,792).

Strategic Report

Regulatory, solvency and capital management

The Company is required to comply with rules issued by the PRA and FCA. With effect from 1 January 2016 a Europe-wide regulatory capital regime (Solvency II) was adopted by the PRA. Both quarterly and annual quantitative returns are submitted to the PRA in addition to a qualitative report, the Regular Supervisory Report (RSR) which is submitted periodically. A further report, the Solvency and Financial Condition Report (SFCR) is produced annually and must be published on the Company website.

The Company has adopted the Solvency II standard formula approach to determine its solvency capital requirement (SCR). The Company is required to maintain its regulatory capital above the SCR. Economic capital is the Company's own internal view of the level of capital required, and this measure is an integral part of the Own Risk and Solvency Assessment Report (ORSA) which is a private, internal forward looking assessment of own risk and capital requirement, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

As at 31 December 2020, the estimated and unaudited solvency ratio, which is defined as Solvency II Own Funds as a proportion of the SCR, was 259% (2019: 255%).

Principal risks and uncertainties

The principal risks and uncertainties, together with details of the financial risk management objectives and policies of the Company are disclosed in notes 3 and 4 to the financial statements.

There is uncertainty regarding the consequences of Brexit and the wider economic impacts that it could have. The Company considers that no impact is expected on the underwriting business due to there being no European exposure on premiums written, however it is noted that there is greater equity price risk with regard to the investment portfolio if Brexit leads to greater market volatility. The Company has taken appropriate action to mitigate this risk with a global spread of equities and short duration fixed investments held.

The World Economic Forum's Global Risks Report identifies cyber-attacks as a key global risk. As the global dependency on technology continues to increase, cyber security is of paramount importance to businesses. Cyber-attacks have the potential to have far-reaching implications and present significant risks to governments, businesses and individuals. Through the administration agreement with EIO, a number of security measures are deployed to ensure protected system access which include security reviews and assessments performed on an ongoing basis as well as ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect cyber security attacks.

The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that funds may not be available to pay obligations when due. The Company has robust processes in place to manage liquidity risk and has adequate access to funding in case of exceptional need. Sources of funding include available cash balances, other readily marketable assets and access to short term bank funding.

Climate change presents increasing levels of risk to both the Company and its customers. The greatest impacts of these risks are expected to materialise in the medium to long-term, however, the actions to be taken to mitigate and manage these risks for both the short and longer term are being developed. The potential exposures for the Company include transition risk, primarily related to the investment portfolio, and physical risk affecting the insurance risks that are written.

The Covid-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. Through the administration agreement with EIO, measures have been put in place to protect and maintain operational resilience and to date, the business continuity plans are working effectively with no adverse impact to customers or staff having arisen. There have been few policy lapses, mainly in relation to the Commercial niche and Credit Control has been marginally impacted with minimal defaults and requests for Direct Debit Payment Holidays. The risks arising from this have been assessed and are being carefully monitored. The potential impact on premiums and claims in 2021 are expected to be minimal, following the experience seen in 2020. Whilst we expect the investment markets to continue to show increased volatility, there is not expected to be any significant adverse impact on the operations of the business, and the solvency, liquidity and financial outlook of the Company remain sufficient to withstand the pandemic and any further lockdowns.

Non-financial information statement

As an authorised insurance entity the Company is covered by sections 414CA and 414CB of the Companies Act 2006 (CA 2006). The Company has opted to take exemption in accordance with subsection 4(b) of s.414CA of the Act, and has not prepared the non financial information statement in the strategic report as it has no employees.

Section 172 Statement

This section of the Strategic Report describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the Directors' statement required under section 414CZA, of the Companies Act 2006.

The Directors recognise that the long-term success of the Company is dependent on having regard to the interests of its stakeholders. The Board has identified and documented its stakeholders in the Company's Governance Framework and Board Charter. Key stakeholders include its shareholders, The Baptist Union of Great Britain ("Baptist Union") and other Baptist organisations, customers and Baptist Community, EIO, suppliers, Regulators and the wider community and its environment. Stakeholder engagement is considered as part of the decision making process of the Board.

The Board recognises the importance of engaging with stakeholders, understanding their views and interests in order to run a successful company over the long-term. Dialogue with stakeholders can help the Board to understand significant changes in the landscape, predict future developments and trends, and develop strategy that is aligned to stakeholder interests.

Covid-19

During 2020, the Board considered the impact of Covid-19 on its stakeholders in the context of the consequent challenges and uncertainty. Key considerations are referenced in the Chair's Statement, Directors' and Strategic Reports.

Shareholders and key Baptist Organisations

The Board is responsible to its shareholders for the long-term success of the Company. The interests of the Company and its shareholders are aligned with the common purpose of benefiting the Baptist community. There is at least one "Baptist Union Director", but no more than a quarter of the total number of Directors of the Company, appointed to the Board. This ensures that the views of the Baptist Union are communicated to the Board as a whole and considered. Directors also actively engage with other Baptist organisations and share stakeholder insights with the Board. There is a Conflicts of Interest Policy in place to manage any actual and perceived conflicts that might arise.

There are open channels of communication between the Company and its shareholders. The Directors regularly meet with its shareholders both through formal and informal means. In 2020 shareholders were unable to attend the AGM in person due to Covid-19 and social distancing requirements. Shareholders were invited to join virtually and to submit any questions to directors electronically.

Customers and Baptist Community

The Company has a strong reputation for delivering outstanding customer service. The Board regularly receive updates and actively challenges management on the delivery of the Customer Strategy. All Board members receive a copy of the Company's Business Report monthly, specifically noting customer satisfaction scores and any complaints handling data. Members of the Board actively engage with its customer base, which usually includes attendance at the annual Baptist Conference.

Ecclesiastical Insurance Office plc

Day to day management services are provided by EIO on the Company's behalf under the terms of the Joint Administration Agreement ("JAA"), therefore the Company has no employees.

EIO is accountable to the Board for all services undertaken in accordance with the JAA. The Board annually reviews the provision of services undertaken by EIO on the Company's behalf, providing rigorous challenge and oversight of management.

Various members of EIO's management team attend Board meetings. Mark Hews, Group Chief Executive Officer ("CEO") provides an annual update on EIO's strategic position to the Board. The Board Chairman meets with Mark Hews to ensure the continued strategic alignment of the companies.

Other Suppliers

The importance of the role that suppliers play in ensuring a reliable service is delivered to customers is recognised by the Directors. Consequently, the Board maintains a Procurement, Purchasing and Outsourcing Policy. Regular updates on performance against the policy are provided to the Audit, Risk and Compliance Committee ("ARCC") and reported to the Board as required.

Regulators

The Board recognises the importance of open and honest dialogue with Regulators (including the Financial Conduct Authority and the Prudential Regulation Authority). The Board (via its Audit, Risk and Compliance Committee) has received regular updates on legal, regulatory and compliance matters.

Community and environment

The Board (via the Audit, Risk and Compliance Committee) regularly review the risk associated with climate change. David Lane (CEO) has Senior Management Function responsibility for managing climate change risk on behalf of the Company.

The Board is focused on its long term charitable giving to the Baptist community and was pleased with the level of grants allocated in 2020.

Stakeholder Engagement

The following shows the structure and content of Board Meetings and how stakeholders have been considered as part of the decision making process during 2020. Stakeholders are defined as follows:

1	*Communities*
2	*Customers and the Baptist Community*
3	*Ecclesiastical Insurance Office plc (includes workforce)*
4	*Regulators*
5	*Shareholders and key Baptist Organisations*

The Chairs of the Audit, Risk and Compliance, Grants, Investment and Sales and Marketing Committees provide updates on key matters discussed at those meetings and any recommendations for the Board's approval. This ensures that the Board as a whole understands a range of significant issues including those that are outside its immediate remit.

Strategy, Company and Operational Performance

Covid-19: 1, 2, 3 & 5

- Considered the impact of Covid-19 on the business and the impact on stakeholders (including in relation to the FCA's business interruption test case and the impact of remote working)

Business and Operational Updates: 2, 3 & 5

- Reviewed regular Business Reports.
- Received presentations from subject matter experts from EIO (including on cyber security in light of Covid-19)
- Received updates on EIO's new purpose built building and senior leadership changes

Charitable Purpose and grant giving: 1,2 & 5

- Agreed to pay grants of over £363,000 during the year

Financial Updates and Regulatory Reporting

Financial resilience: 2, 3, 4 & 5

- Considered the tolerances for various scenarios and solvency positions
- Considered the financial position of its subsidiaries
- Reviewed the going concern assessment
- Considered Claims Reserves Adequacy
- Received updates on the Solvency position of the Company

Capital, costs and budget: 2, 3, 4 & 5

- Reviewed the Company's financial and liquidity position
- Agreed the Budget and Three Year Business Plans
- Considered reinsurance arrangement (via the Audit, Risk and Compliance Committee)

Cash flow and dividends: 5

- Considered the dividends to be paid to the holders of Preference and Ordinary Shares with the right to a fixed cumulative preferential dividend at the rate of 4% and 5% per annum respectively

Regulatory and reporting: 1, 2, 3, 4 & 5

- Considered the Actuarial Function Director's Opinions
- Reviewed and approved the Annual Report and Accounts
- Approved the Annual Solvency Financial Conditioning Report (SFCR) and the Regulatory Supervisory Report (RSR)

Risk: 1, 2, 3, 4 & 5

- Approved the Risk Register and Risk Appetite
- Approved the Company's Own Risk and Solvency Assessment (ORSA)

Investment Management: 1 & 5

- Agreed to establish a second investment fund
- Changed its approach to asset allocation and investment managers

Governance

Board Evaluation and succession: 5

- Considered outcomes from the Board and Committee Evaluations in Q1 2021
- Considered Board succession and commenced recruitment for new Non-executive Directors

Governance Framework: 2, 3 & 5

- Approved changes to the Board Committee Terms of Reference
- Considered Directors' Conflicts of Interest
- Completed an External Audit Tender led by the Audit, Risk and Compliance Committee

IICSA and safeguarding: 1

- Considered updates on developments with the IICSA inquiry

General Meetings: 5

- Approved the resolutions to be put to the shareholders at the AGM and December General Meeting (including the proposals that following the conclusion of the tender process Ernst and Young LLP be appointed as External Auditors and changes to the Company's Articles of Association)

Mrs R. J. Hall
Secretary
30 March 2021

Directors' Report

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

Future prospects
It is anticipated that the activities of the Company will remain unchanged for the foreseeable future.

Going concern

The Company itself maintains a strong balance sheet position and good capital coverage, and it has no external loans. The Company reinsures all of its current business, except for terrorism cover, with EIO, which also provides administrative services within a profit share arrangement. Therefore most of its insurance risks are ultimately borne by EIO, which is well capitalised and has ratings of A- and A with Standard and Poor's and AM Best respectively. The Company's assets excluding reinsurers share of contract provisions are also greater than insurance contract liabilities. The Directors have considered the impact of Covid-19 on the Company, which as seen from the 2020 experience has not materially impacted the Company, and have considered stresses to the solvency and liquidity of the Company to 31 December 2022. The Directors also considered the impact that Covid-19 has had on the financial and operating capability of EIO. The Directors were satisfied that the stresses were appropriate and after considering the stresses and any mitigating actions as well as the financial and operating capability of EIO, the directors believe the Company is well placed to manage such risks to 31 December 2022. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Dividends
The directors recommend that the payment of dividends on the amounts paid up on the 4% cumulative preference shares and on the 5% cumulative ordinary shares, for the year ended 31 December 2020, in the sum of £7,328 (2019: £7,328), be confirmed. This dividend is treated as interest payable on permanent interest-bearing capital in the financial statements.

Political donations
The Company did not make any contributions for political purposes in the current or prior year.

Directors
The directors who served during the year and up to the date of this report are stated on page 3.

Mrs. A. Bishop and Mr. A.M. Lawrence retire by rotation and, being eligible, offer themselves for re-election.

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were in place throughout the year and remain in force at the date of this report.

Directors' responsibilities statement
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

Directors' Report

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Auditor and the disclosure of information to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with Section 418 of the CA 2006.

In accordance with Section 489 of the CA 2006, a resolution proposing that Ernst & Young LLP, who were appointed in 2020 following a successful tender process, be re-appointed as auditor of the Company will be put to the annual general meeting.

Approved by the Board of Directors and signed on its behalf by:

Mrs R. J. Hall
Secretary
30 March 2021

Independent auditor's report to the members of Baptist Insurance Company PLC

Opinion

We have audited the financial statements of The Baptist Insurance Company PLC for the year ended 31 December 2020 which comprise the Statement of Profit or Loss, the Statement of Financial Position, Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- **give a true and fair view of the company's affairs as at 31 December 2020 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included

- confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period through to 31 December 2022
- assessing the reasonableness of the inputs to the cash flow model and the clerical accuracy of the model used;
- evaluating the liquidity and solvency position of the Company by reviewing base case liquidity and solvency projections that incorporate an estimated view of the potential future economic recovery that is anticipated to be experienced due to the impacts of COVID-19;
- obtaining and reviewing the latest Board approved ORSA, assessed whether the stress testing included in the ORSA was reasonable and considered the solvency position under each stress scenario;
- evaluating management's forecast analysis to understand how severe the downside scenarios would have to be to result in the elimination of solvency and liquidity headroom and concluded it to be remote;
- assessing the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Company;
- performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, and made enquiries as to the impact of COVID-19 on the business;
- holding a meeting with the Ecclesiastical Insurance (EIO) Group Financial reporting manager to understand the going concern assessment performed at EIO as the Company's ability to continue its operations are fully dependent on EIO under the joint administration agreement; and
- assessing the appropriateness of the going concern disclosures by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 31 December 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	•	Valuation of Pre-1998 insurance contract liabilities
	•	Estimates involved in the calculation of profit commission income
Materiality	•	Overall materiality of £160k which represents 2% of net assets.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Key audit matters

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

Risk	**Our response to the risk**	**Key observations communicated to the Audit, Risk and Compliance Committee**
Valuation of the pre-1998 insurance contract liabilities (value of net claims outstanding £762k, 2019: £763k) *Refer to the Accounting policies (page 24); and Note 21 of the Financial Statements (page 39)* The valuation of provision of insurance contract liabilities is highly judgemental because it requires a number of assumptions to be made with the estimation uncertainty covering both frequency and severity of claims. Pre-1998 claims includes notified and incurred but not reported ("IBNR") elements of claims. Since Pre-1998 claims include Physical and sexual abuse ("PSA") claims therefore there is significant uncertainty in the calculation of these liabilities and they are not 100% reinsured.	We performed walkthroughs to understand the claims liability valuation processes and identified key controls in place; In conjunction with our actuarial specialists, we assessed the methodology, key assumptions and judgements used by Management, including the key sensitivities and uncertainties in the valuation of the pre-1998 reserves; In particular we: - Assessed the Company's methodology and verified the key outputs from the model. - Reviewed key metrics from the inputs to, and outputs from the valuation models. - Checked assumptions for reasonableness and compared against the recent historical claim experience and against our market benchmarks. - Performed sensitivity testing to the main assumptions to determine the sensitivity of the claims reserves to changes in these parameters.	We concluded that the methodology used by management in the valuation of the pre-1998 insurance contract liabilities was in line with market practice and that it is appropriate for the size and complexity of the underlying risk exposure. We determined that the actuarial assumptions used by management in the valuation of the pre-1998 insurance contract liabilities are reasonable based on the analysis of experience to date, industry practice and the financial reporting and regulatory requirements

	The reserving process is inherently reliant on the quality of the data fed into the process. As a result, we tested the completeness and accuracy of incurred claims data used; We analysed claim payments patterns for pre-1998 policies versus historical trends to assess the reasonableness of the paid claims that inform the year end reserves; We agreed a sample of pre-1998 PSA outstanding claims to the underlying claims files. We read all Board minutes and legal correspondence and considered any impact on insurance contract liabilities; and We confirmed the reinsurer's share had been accurately calculated in line with the reinsurance contract.	
Risk	**Our response to the risk**	**Key observations communicated to the Audit, Risk and Compliance Committee**
Estimates involved in the calculation of profit commission income (profit commission £507k, 2019: £823k) Refer to the Accounting policies (page 24); and Note 6 of the Financial Statements (page 36) Profit share is split 50:50 between EIO and the Company. The calculation of profit commission is dependent on the net underwriting result, which includes the movement in the net claims provisions during the year. The calculation of IBNR and associated reinsurance recoveries, which requires management judgment, is therefore integral to the commission calculation. Any misstatement in the IBNR and associated reinsurance recoveries would result in an incorrect commission income being reported in the financial statements.	We read the profit share agreement in place to obtain an understanding as to how it should operate; We verified the mathematical accuracy of the calculation performed by management and tied back to the methodology set out in the agreement; In conjunction with our actuarial specialists, we performed testing on the IBNR calculation for accident years 1998 and post; in particular we: - Assessed the methodology for reasonableness and identified the key assumptions in the analysis. We audited the reasonableness of those key assumptions by comparing against the Company's recent historical claim experience and against our market benchmarks. - Tested the calculation of reinsurance recoveries on IBNR and checked that this calculation was reasonable given the EIO reinsurance program in place. - Performed independent claims reprojections of the post-1998 property and liability excluding PSA classes of business We obtained a confirmation from EIO for the amount of profit commission for the year. We read the Board minutes where the final commission figure is agreed.	We determined that the profit commission is calculated correctly and based on the agreed terms with EIO and reported accurately in the Financial Statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £160k (2019: Deloitte materiality £220k), which is 2% (2019: 3%) of net assets. We believe that net assets reflect both the regulatory strength of the entity and the ability to continue to make the grants and meet the entity's charitable objectives.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2019: Deloitte 70%) of our planning materiality, namely £80k (2019: £154k). We have set performance materiality at this percentage due to this being our first year of auditing the entity.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit, Risk and Compliance Committee that we would report to them all uncorrected audit differences in excess of £8k (2019: Deloitte £11k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are direct laws and regulations related to elements of the Companies Act 2006 and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how The Baptist Insurance Company PLC is complying with those frameworks by making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees and inquiring about the Company's methods of enforcing and monitoring compliance with such policies.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the Company, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the procedures over the actuarial assumptions noted under the Key audit matters section above. With regard to revenue recognition fraud risk we tied back all the gross premium income received to cash received during the year and additional procedures included testing a sample of manual journals. We have also agreed the monthly journal upload of investment income into the general ledger to investment managers reports. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of senior management and the Audit, Risk and Compliance Committee for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA and reviewing minutes of the Board and its committees, the complaints log and the quarterly Internal Audit updates presented to the Audit, Risk and Compliance Committee.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit, Risk and Compliance Committee we were appointed by the company on 19 October 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 1 year, covering the year ending 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit, Risk and Compliance Committee.

Use of our report

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

Andy Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date:

Statement of Profit or Loss

for the year ended 31 December 2020

	Notes	**2020**	2019
		£	£
Revenue			
Gross written premiums	5	**3,636,260**	3,581,670
Outward reinsurance premiums	5	**(3,636,260)**	(3,581,670)
Net change in provision for unearned premiums	5	**-**	-
Net earned premiums	5	**-**	-
Fee and commission income	6	**535,589**	843,537
Net investment return	7	**657,288**	1,003,578
Total revenue		**1,192,877**	1,847,115
Expenses			
Claims and change in insurance liabilities	8	**(765,255)**	(233,738)
Reinsurance recoveries	8	**765,346**	87,738
Fees, commissions and other acquisition costs	9	**(17,506)**	(14,258)
Other operating and administrative expenses	10	**(193,952)**	(178,166)
Total operating expenses		**(211,367)**	(338,424)
Operating profit		**981,510**	1,508,691
Finance costs	13	**(7,328)**	(7,328)
Charitable grants	14	**(290,889)**	(314,417)
Profit before tax		**683,293**	1,186,946
Taxation	15	**(113,015)**	(231,154)
Profit attributable to equity holders		**570,278**	955,792

All the amounts above are in respect of continuing operations.

The Company had no recognised income or expense during the current financial year and the preceding financial year other than that included in the statement of profit or loss. Accordingly, no separate statement of comprehensive income has been presented, profit after tax being total comprehensive income for the year.

Statement of Financial Position

at 31 December 2020

	Notes	**2020**	2019
		£	£
Assets			
Financial investments	16	**8,133,243**	7,356,397
Reinsurers' share of insurance contract provisions	21	**4,562,059**	4,747,408
Other assets	17	**330,064**	517,932
Cash and cash equivalents	18	**968,033**	1,010,129
Total assets		**13,993,399**	13,631,866
Liabilities			
Permanent interest-bearing capital	20	**147,850**	147,850
Insurance contract provisions	21	**5,323,561**	5,509,910
Current tax liabilities		**109,168**	231,154
Other liabilities	22	**416,943**	317,353
Total liabilities		**5,997,522**	6,206,267
Net assets		**7,995,877**	7,425,599
Equity			
Retained earnings		**7,995,877**	7,425,599
Total equity		**7,995,877**	7,425,599

The financial statements of The Baptist Insurance Company PLC, company registration number 00083597, on pages 20 to 43 were approved by the board of directors and authorised for issue on 30 March 2021 and signed on their behalf by:

M. N. Hayes *Chair*

M. R. Buttrick *Deputy Chair*

Statement of Changes in Equity

for the year ended 31 December 2020

	Note	2020	2019
Retained Earnings		**£**	£
Balance at 1 January		**7,425,599**	6,469,807
Profit and total comprehensive income for the period		**570,278**	955,792
Balance at 31 December	19	**7,995,877**	7,425,599

The accounting policies and notes on pages 24 to 43 form part of these accounts.

Statement of Cash Flows

for the year ended 31 December 2020

	Notes	**2020**	2019
		£	£
Profit before tax		**683,293**	1,186,946
Adjustments for:			
Net fair value gains on financial investments	7	**(457,806)**	(817,784)
Dividend and interest income	7	**(204,384)**	(186,796)
Investment expenses	7	**4,902**	1,002
Finance expense	13	**7,328**	7,328
Changes in operating assets and liabilities:			
Net decrease in insurance contract provisions	21	**(186,349)**	(820,299)
Net decrease in reinsurers' share of contract provisions	21	**185,349**	966,299
Net decrease/(increase) in other assets	17	**187,868**	(263,755)
Net increase in other liabilities	22	**99,590**	100,247
Cash generated by operations		**319,791**	173,188
Corporation tax paid		**(235,001)**	-
Net cash generated by operating activities		**84,790**	173,188
Cash flows from investing activities			
Sale of financial investments		**1,492,548**	858,444
Purchases of financial investments		**(1,811,588)**	(1,169,546)
Dividends received		**169,041**	152,102
Interest received		**35,343**	34,694
Investment expenses	7	**(4,902)**	(1,002)
Net cash used by investing activities		**(119,558)**	(125,308)
Cash flows from financing activities			
Dividends paid to company's shareholders	13	**(7,328)**	(7,328)
Net (decrease)/increase in cash and cash equivalents		**(42,096)**	40,552
Cash and cash equivalents at beginning of year		**1,010,129**	969,577
Cash and cash equivalents at end of year	18	**968,033**	1,010,129

Notes to the Financial Statements

1 Accounting policies

The principal accounting policies adopted in preparing the Company's financial statements are set out below. These policies have been applied consistently throughout the current and prior financial year.

Basis of preparation

The Company's financial statements have been prepared using the following accounting policies and in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments measured at fair value.

The Company itself maintains a strong balance sheet position and good capital coverage. The Company reinsures all of its current business, except for terrorism cover, with EIO, which also provides administrative services within a profit share arrangement. Therefore most of its insurance risks are ultimately borne by EIO, which is well capitalised and has ratings of A- and A with Standard and Poor's and AM Best respectively. The Company's assets excluding reinsurers share of contract provisions are also greater than insurance contract liabilities. The Directors have considered the impact of Covid-19 on the Company, which as seen from the 2020 experience has not materially impacted the Company, and have considered stresses to the solvency and liquidity of the Company to 31 December 2022. The Directors also considered the impact that Covid-19 has had on the financial and operating capability of EIO. The Directors were satisfied that the stresses were appropriate and after considering the stresses and any mitigating actions as well as the financial and operating capability of EIO, the directors believe the Company is well placed to manage such risks in the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The exemption in CA 2006 s402 and s405(2) is taken as the subsidiaries disclosed in note 24 are not material to the financial statements and are dormant, having not traded since incorporation. The Company has elected not to produce consolidated financial statements.

In accordance with IFRS 4, *Insurance Contracts,* the Company has applied existing accounting practices for insurance contracts, modified as appropriate to comply with IAS in conformity with the requirements of the Companies Act 2006.

New and revised standards

IFRS 9, *Financial Instruments,* is effective for periods beginning on or after 1 January 2018. However the Company has taken the option available to insurers to defer the application of IFRS 9 as permitted by IFRS 4, *Insurance Contracts.* The Company qualifies for temporary exemption which is available until annual periods beginning on or after 1 January 2023, because at 31 December 2015 greater than 90% of the Company's liabilities were within the scope of IFRS 4. There have been no significant changes to the Company's operations since that date and as a result the Company continues to apply IAS 39, *Financial Instruments* .

A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of on or after 1 January 2020, and are therefore applicable for the 31 December 2020 financial statements. None had a significant impact on the Company.

Notes to the Financial Statements

The following Standards were in issue and effective but have not been applied in these financial statements.

Accounting Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, *Financial Investments*	Provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of certain debt instruments will change to amortised cost or fair value through other comprehensive income. The Company is eligible for, and has adopted, the deferral approach which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, Insurance contracts'.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2023 for insurers inline with the effective date of IFRS 17.
IFRS 17, *Insurance Contracts*	Requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.	IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The standard was issued in May 2017 as replacement for 'IFRS 4 Insurance Contracts' and the impact of the standard on the financial statements is still being assessed. The Company expects to be able to use the simplified premium allocation approach to the majority of its insurance contracts, which applies mainly to short-duration contracts. Amendments to IFRS 17 that had been proposed by the IASB in January 2019, have been issued in June 2020.	Applicable to annual reporting periods beginning on or after 1 January 2023.

Amendments to other standards in issue but not yet effective are not expected to materially impact the Company.

Notes to the Financial Statements

Use of estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Those estimates which have the most material impact on the financial statements are disclosed in note 2.

Product classification

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. Contracts that do not transfer significant insurance risk are classified as investment or service contracts. All contracts offered by the Company meet the definition of an insurance contract.

Premium income

Premiums are shown gross of commission paid to intermediaries and accounted for in the period in which the risk commences. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums written are shown net of insurance premium taxes. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

Fee and commission income

Fee and commission income primarily comprises reinsurance commissions receivable, which are recognised as revenue in the same manner as direct business. Non-insurance commissions receivable are accounted for in accordance with IFRS 15 *Revenue from contracts with customers*, and are recognised at the point at which the Company satisfies its performance obligation. Where this income is variable, it is recognised at the point at which it is reasonably certain that no significant reversal of the amount recognised would occur.

Reinsurance commission relates to a profit share receivable on the Reinsurance agreement between the Company and EIO. The profit commission receivable is calculated based on the net underwriting result of the related contracts during the year in accordance with the terms of the Reinsurance Agreement.

Net investment return

Net investment return consists of dividends and interest receivable for the year, realised gains and losses, and unrealised gains and losses on fair value investments, less investment expenses. Dividends on equity securities are recorded as revenue on the ex-dividend date; interest income is recognised as it accrues.

Realised gains or losses represent the difference between the net sales proceeds and purchase price. Unrealised gains or losses represent the difference between the valuation of investments at the year end and their purchase price. The movement in unrealised investment gains and losses therefore comprises the increase or decrease in the year in the value of investments held at the year end together with the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

Claims

General insurance claims incurred include all losses occurring during the year, an estimate of claims incurred but not reported, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Insurance contract liabilities

(i) Outstanding claims provisions

General insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the year end, whether reported or not. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the year end date. Any estimate represents a determination within a range of possible outcomes. Claims provisions are not discounted.

Notes to the Financial Statements

(ii) Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the statement of profit or loss in order that revenue is recognised over the period of risk.

(iii) Liability adequacy

Provision for unexpired risks is made where it is anticipated, on the basis of information available at the year end, that claims and administrative expenses are expected to exceed unearned premiums, after taking account of future investment income. Unexpired risks are assessed separately for each class of business. Surpluses and deficits are offset where business classes are considered to be managed together. No such provision was made at either year end.

Reinsurance
The Company has a reinsurance treaty with EIO which took effect from 1998, whereby all business accepted by the company is fully reinsured with Ecclesiastical Insurance Office plc with the exception of terrorism cover which is reinsured through a third party, Pool Re. Reinsurance premiums are accounted for at the time the business is written by the Company. The Company's and the reinsurers' share of claims are recognised at the time the claims are notified or earlier by way of a provision for claims incurred but not reported.

Prior to the reinsurance treaty with EIO, the Company had in place a reinsurance agreement with a third party for risks from 1971 to 1998, which covers liabilities for that period. The Company had other arrangements in place prior to this date.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the statement of profit or loss. A reinsurance asset is impaired if there is objective evidence that, as a result of an event occurring after initial recognition, the Company may not receive all the amounts due to it under the terms of the contract, and the impact of the event on the amounts that the Company will receive can be reliably measured.

Financial instruments

IAS 39, *Financial Instruments: Measurement and Recognition* , requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirement is different.

The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification.

Financial instruments designated as at fair value through profit or loss are subsequently carried at fair value. Changes in fair value are included in the statement of profit or loss in the period in which they arise. This category consists of financial investments.

All other financial assets and liabilities are held at amortised cost using the effective interest method, except for short-term receivables and payables where the recognition of interest would be immaterial. Included in financial liabilities is permanent interest-bearing capital.

The directors consider that the carrying value of those financial assets and liabilities not carried at fair value in the financial statements approximates to their fair value.

Offset of financial assets and financial liabilities
Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial investments
The company classifies its investments as financial assets designated at fair value through profit or loss, as they are managed, and their performance evaluated, on a fair value basis.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs. Investments classified at fair value through profit or loss are subsequently carried at fair value, with changes in fair value included in the statement of profit or loss in the period in which they arise.

The fair values of investments are based on quoted bid prices.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash held by investment broker, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources, embodying economic benefits, will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation but either an outflow of resources is not probable or the amount cannot be reliably estimated.

Taxation

Income tax comprises current tax and is recognised in the statement of profit or loss. Current tax is the expected tax payable on the taxable profit for the period and any adjustment to the tax payable in respect of previous periods.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and laws which have been enacted or substantively enacted at the year end date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are not discounted.

2 Critical accounting estimates, and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements, where they arise, are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the current and prior year no material judgements were made.

The ultimate liability arising from claims made under general business insurance contracts

The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate. There are various sources of uncertainty as to how much the Company will ultimately pay with respect to such contracts. There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments.

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3. The sensitivity of profit or loss to changes in the ultimate settlement cost of claims reserves is presented in note 21(vi).

Notes to the Financial Statements

3 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. By the very nature of an insurance contract, this risk is unpredictable and difficult to quantify with certainty.

The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities, which may occur if the frequency or severity of claims and benefits are greater than estimated. Insurance events are unpredictable and the actual level of claims and benefits may vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger and more diversified the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. As a niche market operator the Company's opportunity to diversify the type of insurance risks is limited; however, some diversity is achieved by the geographical spread of its business within the UK.

General business risks

General insurance business classes written include property and liability. Property cover mainly compensates the policyholder for damage suffered to their properties or for the value of property lost, and may also include cover for other costs or losses arising from the inability to use damaged or lost insured properties. Liability insurance contracts protect policyholders from the liability to compensate injured employees (employers' liability) and third parties (public liability). Injury, death or incapacity as a result of an unforeseen event is covered by the accident class of business.

In all operations, pricing controls are in place underpinned by sound statistical analysis and market expertise and appropriate external consultant advice. The Company manages risks to limit severity through its underwriting strategy, a comprehensive reinsurance programme and proactive claims handling.

Frequency and severity of claims

Property classes

For property insurance contracts, the number of claims made can be affected by weather events, changes in climate and crime rates. Individual claims can vary in amount since the property insured is diverse in both size and nature. The cost of repairing property varies according to the extent of damage, cost of materials and labour charges.

Climate change may give rise to more frequent and severe extreme weather events, such as river flooding, hurricanes and drought, and their consequences, for example, subsidence claims.

The maximum claim payable is limited to the sum insured. The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles, reject fraudulent claims and pursue third parties for payment of some or all costs. Most contracts are underwritten on a reinstatement basis. Costs of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims. Individual large claims are more likely to arise from fire, storm or flood damage. The greatest likelihood of an aggregation of claims arises from weather related events.

Liability classes

The settlement value of claims arising under public and employers' liability is particularly difficult to predict. There is uncertainty as to whether any payments will be made and, if they are, the amount and timing of payments. Key factors driving the high levels of uncertainty include the late notification of possible claims events and the legal process.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles, reject fraudulent claims and pursue third parties for payment of some or all costs. The severity of bodily injury claims is highly influenced by the value of loss of earnings and the future cost of care.

Notes to the Financial Statements

Concentrations of risk

The underwriting strategy is designed to ensure that the underwritten risks are well diversified in terms of type and amount of risk. The concentration of insurance risk for the financial year in relation to the type of risk accepted is summarised below, with reference to gross written premiums:

	Type of risk			
	Property	**Liability**	**Accident**	**Total**
	£000	**£000**	**£000**	**£000**
Gross written premiums				
2020	**3,326**	**285**	**25**	**3,636**
2019	3,264	294	24	3,582

The Company operates a Joint Administration Agreement and a Reinsurance Treaty Agreement with EIO, under which EIO manages and administers the Company's insurance business and accepts all insurances written by the Company with the exception of terrorism cover, which is reinsured through a third party, Pool Re, and is responsible for all disbursements relating to the business except certain expenses designated as the sole responsibility of the Company.

Sources of uncertainty in the estimation of future claim payments

Property classes

The property classes give rise to a variety of different types of claims including fire, weather damage, business interruption, subsidence, and theft. There can be variability in both the number of claims in each period and the size of those claims. If a weather event happens near the end of the financial year, then the uncertainty about ultimate claims cost in the financial statements is much higher because there is insufficient time for adequate data to be received to assess the final cost of claims.

Claims payment, on average, occurs within a year of the claim event; however, there is variability around this average with larger claims typically taking longer to settle.

Subsidence claims are difficult to predict because the damage is often not apparent for some time. Changes in soil moisture conditions can give rise to changes in claim volumes over time. The ultimate settlements can be small or large with a greater risk of a settled claim being re-opened at a later date.

Liability classes

Late notification of possible claims necessitates the holding of provisions for incurred claims that may only emerge some years into the future. In particular the effect of inflation over such a long period can be considerable and is uncertain. A lack of comparable past experience makes it difficult to quantify the number of claims and, for certain types of claims, the amounts for which they will ultimately settle. The legal and legislative frameworks continues to develop, which has a consequent impact on the uncertainty as to the length of the claims settlement process and the ultimate settlement amounts.

Claims that may arise from the liability portfolios include damage to third party property, physical and sexual abuse, physical injury, disease and psychological trauma. The Company has a different exposure profile to most other commercial lines insurance companies as it has lower exposure to industrial risks, where uncertainty is higher.

Notes to the Financial Statements

Note 21 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

Sources of uncertainty

The ultimate settlement cost of incurred general insurance claims is inherently uncertain. Such uncertainty includes:

- whether a claim event has occurred or not and how much it will ultimately settle for;
- variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
- changes in the business portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
- new types of claim, including latent claims, which arise from time to time;
- changes in legislation and court attitudes to compensation, which may apply retrospectively;
- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual/latent claims where aggregation of claimants and exposure over time are issues; and
- whether all such reinsurances will remain in force over the long term.

Prudence in the provisions for outstanding claims

The Company has taken into account the uncertain nature of claims reporting and settlement when provisioning for outstanding claims.

Special provisions for latent claims

The public and employers’ liability classes can give rise to very late reported claims, which are often referred to as latent claims. These can vary in nature and are difficult to predict. Currently, the Company only has access to very limited information for some of these claims. They typically emerge slowly over many years. The Company has reflected this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date.

4 Financial risk and capital management

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk are credit risk, liquidity risk, equity price risk and interest rate risk.

As at the balance sheet date there had been no change from the prior period to the financial risks that the Company was exposed to, or the manner in which it manages and measures these risks other than a consideration on the impact of Covid-19. The Covid-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. There have been few policy lapses, mainly in relation to the Commercial niche and Credit Control has been marginally impacted with minimal defaults and requests for Direct Debit Payment Holidays. The investment markets have shown increased volatility during the outbreak but there is not expected to be any significant adverse impact on the operations of the business, and the solvency, liquidity and financial outlook of the Company remain sufficient to withstand the pandemic and any further lockdowns.

Notes to the Financial Statements

Categories of financial instruments

	Financial assets					
	Designated at fair value	**Loans and receivables**	**Cash and cash equivalents**	**Financial liabilities at amortised cost**	**Non-financial assets and liabilities**	**Total**
At 31 December 2020						
	£	**£**	**£**	**£**	**£**	**£**
Financial investments	**8,131,247**	**-**	**-**	**-**	**1,996**	**8,133,243**
Other assets	**-**	**327,381**	**-**	**-**	**2,683**	**330,064**
Cash and cash equivalents	**-**	**-**	**968,033**	**-**	**-**	**968,033**
Permanent interest bearing capital	**-**	**-**	**-**	**(147,850)**	**-**	**(147,850)**
Other liabilities	**-**	**-**	**-**	**(310,171)**	**(106,772)**	**(416,943)**
Net insurance contract provisions	**-**	**-**	**-**	**-**	**(761,502)**	**(761,502)**
Current tax liabilities	**-**	**-**	**-**	**-**	**(109,168)**	**(109,168)**
Net assets	**8,131,247**	**327,381**	**968,033**	**(458,021)**	**(972,763)**	**7,995,877**
At 31 December 2019						
	£	£	£	£	£	£
Financial investments	7,354,401	-	-	-	1,996	7,356,397
Other assets	-	515,599	-	-	2,333	517,932
Cash and cash equivalents	-	-	1,010,129	-	-	1,010,129
Permanent interest bearing capital	-	-	-	(147,850)	-	(147,850)
Other liabilities	-	-	-	(137,150)	(180,203)	(317,353)
Net insurance contract provisions	-	-	-	-	(762,502)	(762,502)
Current tax liabilities	-	-	-	-	(231,154)	(231,154)
Net assets	7,354,401	515,599	1,010,129	(285,000)	(1,169,530)	7,425,599

As disclosed in the accounting policies, the Company has chosen to defer application of IFRS 9 and classifies and measures financial instruments using IAS 39. To facilitate comparison with entities applying IFRS 9, the table below sets out the Company's financial assets at the balance sheet date, split between those which have contractual cash flows that are solely payments of principal and interest on the principal outstanding (SPPI) and all other financial assets.

	At 31 December 2020			At 31 December 2019		
	SPPI financial assets	**Other financial assets**	**Total financial assets**	SPPI financial assets	Other financial assets	Total financial assets
	£	**£**	**£**	£	£	£
Financial Investments	**-**	**8,131,247**	**8,131,247**	-	7,354,401	7,354,401
Cash and cash equivalents	**968,033**	**-**	**968,033**	1,010,129	-	1,010,129
Other financial assets	**327,381**	**-**	**327,381**	515,599	-	515,599
Total fair value	**1,295,414**	**8,131,247**	**9,426,661**	1,525,728	7,354,401	8,880,129

There has been a £230,314 decrease (2019: increase £304,307) in the fair value of SPPI financial assets of the Company , and a £776,846 increase (2019: increase £1,128,886) in the fair value of other financial assets of the Company during the year.

Fair value hierarchy

The fair value measurement basis used to value financial assets and financial liabilities held at fair value is categorised into a fair value hierarchy as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equities in active markets, listed debt securities in active markets and exchange traded derivatives.

Level 2: fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes listed debt or equity securities in a market that is not active and derivatives that are not exchange traded.

Level 3: fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes unlisted equities, including investments in venture capital, and suspended securities.

All financial instruments recognised by the company and designated at fair value in the current and prior year are classified as level 1. Accordingly no analysis of fair value measurement bases is presented.

Notes to the Financial Statements

(a) Interest rate risk

The table below summarises the maturity dates at the year end for those financial assets that are exposed to interest rate risk.

	2020	2019
	£	£
Other assets including insurance instalment receivables	**257,130**	233,815
Cash and cash equivalents	**968,033**	1,010,129
	1,225,163	1,243,944

All amounts have maturity dates of less than one year.

General business insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing. Furthermore, these liabilities do not have maturity dates hence are not included in the above tables.

(b) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities (excluding provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance intermediaries and policyholders;
- amounts due from EIO under the Joint Administration Agreement and Reinsurance Treaty; and
- deposits held with banks.

The carrying amount of financial assets represents the Company's maximum exposure to credit risk. No significant amounts are overdue, and none are impaired.

The Company uses reinsurance to manage insurance risk, with all business accepted by the Company fully reinsured with EIO, with the exception of terrorism cover which is reinsured through a third party, Pool Re. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. EIO mitigates its own insurance risk through a comprehensive programme of reinsurance. Its Reinsurance Security Committee assesses, monitors and approves the creditworthiness of its reinsurers reviewing relevant credit ratings provided by the recognised credit rating agencies, as well as other publicly available data and market information.

The Company's credit risk policy details prescriptive methods for the collection of premiums and control of intermediary and policyholder debtor balances. The level and age of debtor balances are regularly assessed via monthly credit management reports and where possible creditors are monitored via credit reference agencies to minimise the risk of default.

Where available the Company manages its exposure to credit risk in relation to credit risk ratings. Investment grade financial assets are classified within the range AAA to BBB ratings, where AAA is the highest possible rating. Financial assets which fall outside this range are classified as sub-investment grade. 'Not-rated' assets capture assets not rated by external rating agencies.

Notes to the Financial Statements

The following table provides information regarding the credit risk exposure of financial assets with credit ratings from Standard & Poors or from a similar agency. This includes financial assets that meet the definition of 'solely payments of principal and interest' (SPPI).

As at 31 December 2020	**SPPI**				**Non-SPPI**
	Cash and cash equivalents	**Reinsurance debtors**	**Other financial assets**	**Total SPPI**	**Financial Investments**
AAA	-	-	-	-	-
AA	-	-	-	-	-
A	**968,033**	**3,830**	-	**971,863**	-
BBB		-	-	-	-
Below BBB	-	-	-	-	-
Not rated	-	-	**323,551**	**323,551**	**8,131,247**
	968,033	**3,830**	**323,551**	**1,295,414**	**8,131,247**

As at 31 December 2019	SPPI				Non-SPPI
	Cash and cash equivalents	Reinsurance debtors	Other financial assets	Total SPPI	Financial Investments
AAA	-	-	-	-	-
AA	263	-	-	263	-
A	1,009,866	231,110	-	1,240,976	-
BBB	-	-	-	-	-
Below BBB	-	-	-	-	-
Not rated	-	-	284,488	284,488	7,354,401
	1,010,129	231,110	284,488	1,525,727	7,354,401

(c) Liquidity risk

The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that funds may not be available to pay obligations when due. The Company has robust processes in place to manage liquidity risk and has adequate access to funding in case of exceptional need. Sources of funding include available cash balances, other readily marketable assets and access to short-term bank funding.

Financial liabilities of the Company all mature within one year, with the exception of permanent interest-bearing capital, which is irredeemable. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 21.

(d) Equity price risk

Investments held by the Company and classified at fair value through profit or loss are exposed to price risk. The risk is mitigated by holding a diversified portfolio of UK and overseas equities indirectly through investment in open-ended investment companies (OEICs).

(e) Equity risk sensitivity analysis

The sensitivity of profit to movements in equity price risk is shown in the following table:

Variable	Change in variable	Potential increase/ (decrease) in profit after tax 2020 £	2019 £
Equity price risk	**-10%**	**(658,631)**	(595,706)
	+10%	**658,631**	595,706

In preparing the above sensitivity analysis it has been assumed that the value of fixed income investments will vary inversely with changes in interest rates and that any change in profit is subject to a tax rate of 19.00% (2019: 19.00%). No fixed income investments were held at 31 December 2020, although the investments held as OEICs have a significant fixed interest element within them.

(f) Capital management

The Company is subject to insurance solvency regulations, and capital is managed and evaluated on the basis of regulatory capital. The Company's objectives when managing capital are:

- to comply with the regulator's capital requirements of the insurance market in which the Company operates; and
- to safeguard the Company's ability to continue to meet stakeholders' expectations, in accordance with its corporate mission, vision and values.

The Company is required to comply with rules issued by the PRA and FCA. With effect from 1 January 2016 a new Europe-wide regulatory capital regime (Solvency II) was adopted by the PRA. Both quarterly and annual quantitative returns are submitted to the PRA in addition to a qualitative report, the Regular Supervisory Report (RSR) which is submitted periodically. A further report, the Solvency and Financial Condition Report (SFCR) is produced annually and must be published on the Company website.

During the year, the Company complied with these capital requirements.

The Company has adopted the Solvency II standard formula approach to determine its solvency capital requirement (SCR). The Company is required to maintain its regulatory capital above the SCR. Economic capital is the Company’s own internal view of the level of capital required, and this measure is an integral part of the Own Risk and Solvency Assessment Report (ORSA) which is a private, internal forward looking assessment of own risk, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

5 Net insurance premium revenue	**2020**	2019
	£	£
Gross written premiums	**3,636,260**	3,581,670
Change in the gross provision for unearned premiums	**(14,542)**	(21,670)
Gross earned premiums	**3,621,718**	3,560,000
Outward reinsurance premiums	**(3,636,260)**	(3,581,670)
Change in the provision for unearned premiums, reinsurers' share	**14,542**	21,670
Reinsurers' share of earned premiums	**(3,621,718)**	(3,560,000)
Premiums written, net of reinsurance	**-**	-
Earned premiums, net of reinsurance	**-**	-

Notes to the Financial Statements

6 Fee and commission income	2020 £	2019 £
Reinsurance commissions and profit commission	**525,420**	837,747
Other commissions	**10,169**	5,790
	535,589	843,537

During the year the Company received fee and commission income of £3,228 (2019: £8,416) from its contracts with customers, which was recognised in respect of performance obligations satisfied at a point in time.

7 Net investment return	2020 £	2019 £
Income from financial assets at fair value through the statement of profit or loss:		
- dividend income	**169,041**	152,102
Income from financial assets not at fair value through the statement of profit or loss:		
- other income received	**35,343**	34,694
Investment income	**204,384**	186,796
Fair value gains on investments at fair value through the statement of profit or loss	**457,806**	817,784
Investment expenses	**(4,902)**	(1,002)
Net investment return	**657,288**	1,003,578

8 Claims and change in insurance liabilities and reinsurance recoveries	2020 £	2019 £
Gross claims paid	**(965,238)**	(1,075,706)
Gross change in the provision for claims	**199,983**	841,968
Claims and change in insurance liabilities	**(765,255)**	(233,738)
Reinsurers' share of claims paid	**965,238**	1,075,706
Reinsurers' share of change in the provision for claims	**(199,892)**	(987,968)
Reinsurance recoveries	**765,346**	87,738
Claims and change in insurance liabilities, net of reinsurance	**91**	(146,000)

9 Fees, commissions and other acquisition costs	2020 £	2019 £
Commission paid	**17,506**	14,258

10 Operating profit

Operating profit has been arrived at after charging:	2020 £	2019 £
- Directors' fees and expenses	**75,911**	67,618
- Bad debt expense	**-**	48,049
- Professional fees	**33,099**	5,398
- Other operating expenses	**84,942**	57,101
	193,952	178,166

11 Auditor's remuneration

	2020 £	2019 £
Fees payable to the Company's auditor for:		
- The audit of the Company's annual accounts	**70,000**	42,000
Fees payable to the Company's predecessor auditor for:		
- The audit of the Company's annual accounts scope changes	**6,000**	-
Total audit fees	**76,000**	42,000

The auditor's remuneration for 2020 relates to the Company's new auditors, Ernst & Young LLP, and for 2019 relates to Deloitte LLP.

There were no fees incurred for non-audit services or Solvency II in both years.
Amounts disclosed are exclusive of service taxes.

12 Employee information

As all management services are provided by EIO under the terms of the Joint Administration Agreement, the Company had no employees in either the current or prior year.

13 Finance costs

	2020 £	2019 £
Interest payable on permanent interest-bearing capital	**7,328**	7,328

14 Charitable grants

	2020 £	2019 £
Charitable grants paid or accrued	**290,889**	314,417

Actual monies paid amounted to £363,389 which includes the brought forward accrual from the previous year

15 Taxation

	2020 £	2019 £
UK corporation tax for the current financial year	**(113,442)**	(231,154)
Adjustment in respect of prior periods	**427**	-
Tax expense	**(113,015)**	(231,154)

Tax on the Company's profit before tax differs from the United Kingdom standard rate of corporation tax for the reasons set out in the following reconciliation:

	2020 £	2019 £
Profit before tax	**683,293**	1,186,946
Tax due calculated at the UK standard rate for the year of 19.00% (2019: 19.00%).	**(129,826)**	(225,520)
The change in tax rate will have no material effect on the tax charge.		
Factors affecting charge for the period:		
Dividends from UK companies	**7,900**	9,533
Expenses not deductible for tax purposes	**8,484**	(15,167)
Adjustments to tax charge in respect of prior periods	**427**	-
Tax expense	**(113,015)**	(231,154)

Deferred tax asset in the current year is £nil (2019: £nil)

Current tax has been provided at a rate of 19% (2019: 19%). Deferred tax has been provided at a rate of 19% (2019: 17%).

Notes to the Financial Statements

16 Financial investments

	2020	2019
Financial investments at fair value through the statement of profit or loss	**£**	£
Equity securities:		
- listed	**8,131,247**	7,354,401
	8,131,247	7,354,401
Investments in group undertakings		
Shares in subsidiary undertakings	**1,996**	1,996
	1,996	1,996
Total financial investments	**8,133,243**	7,356,397

All equity and debt securities are designated by the Company to be measured at fair value through the statement of profit or loss. No financial investments mature within one year (2019: £nil). The financial investments are held as OEIC funds which contain both fixed interest and equity elements.

17 Other assets

	2020	2019
	£	£
Receivables arising from insurance and reinsurance contracts:		
- due from contract holders	**311,812**	277,324
- due from agents, brokers and intermediaries	**11,739**	7,165
- due from reinsurers	**3,830**	231,110
Other receivables:		
- tax receivable		-
- other prepayments and accrued income	**2,683**	2,333
	330,064	517,932

Other assets are all current and, due to their short-term nature, the above carrying amounts are a reasonable approximation of fair value.

At 31 December 2020, £682 (2019: £1,174) of receivables from contract holders, agents, brokers and intermediaries were past due and not impaired. No impairment charges have been recognised in the current or prior year.

18 Cash and cash equivalents

	2020	2019
	£	£
Cash held at bank	**966,103**	1,009,866
Cash held at investment manager	**1,930**	263
	968,033	1,010,129

The above carrying amounts are a reasonable approximation of fair value.

19 Statement of changes in equity

The Company does not have any equity shareholders. Both the ordinary and the preference shares are entitled to fixed percentage dividends on the amounts paid up on the shares, but are not entitled to participate further in the profits of the Company, whether as a going concern or on winding up.

The directors may make grants out of any surplus profits of the company after payment of expenses and dividends and after setting monies aside to any reserve fund to or for the benefit of any ministers, churches or societies of the Baptist denomination; any individual who is a Baptist and whose prime vision and ministry is Christian evangelistic work; and the Council of the Baptist Union for it to apply in such a manner as it may determine.

20 Permanent interest-bearing capital

	2020	2019
	£	£
Authorised share capital:		
2,000 4% cumulative preference shares of £5 each	**10,000**	10,000
28,300 5% cumulative ordinary shares of £5 each	**141,500**	141,500
	151,500	151,500
Called up, allotted and fully paid share capital:		
1,286 4% cumulative preference shares of £5 each	**6,430**	6,430
28,284 5% cumulative ordinary shares of £5 each	**141,420**	141,420
	147,850	147,850

The Company's preference and ordinary shares are entitled to annual dividends of 4% and 5% respectively on the amount paid up. The Company has an obligation at the year end date in relation to the dividends payable on the shares and, because of this, the Company is required to account for the whole of its called up share capital as 'permanent interest-bearing capital' in the statement of financial position under IAS 32, *Financial Instruments: Presentation.*

On winding up, shareholders are entitled only to the amount paid up on shares, and preference shares take priority over ordinary shares on winding up.

Preference and ordinary shares are non current liabilities. They are not redeemable and carry equal voting rights.

21 Insurance liabilities and reinsurance assets

Claims outstanding

	2020	2019
Gross	£	£
Claims outstanding	**3,333,551**	3,534,442
Unearned premiums	**1,990,010**	1,975,468
Total gross insurance liabilities	**5,323,561**	5,509,910
Recoverable from reinsurers		
Claims outstanding	**2,572,049**	2,771,940
Unearned premiums	**1,990,010**	1,975,468
Total reinsurers' share of insurance liabilities	**4,562,059**	4,747,408
Net		
Claims outstanding	**761,502**	762,502
Unearned premiums	**-**	-
Total net insurance liabilities	**761,502**	762,502
Gross insurance liabilities		
Current	**2,560,585**	2,640,044
Non-current	**2,762,976**	2,869,866
Total gross insurance liabilities	**5,323,561**	5,509,910
Reinsurance assets		
Current	**2,560,585**	2,640,044
Non-current	**2,001,474**	2,107,364
Total reinsurers' share of insurance liabilities	**4,562,059**	4,747,408

General business insurance contracts

(i) Reserving methodology

Reserving for insurance claims is a complex process and the Company adopts recognised actuarial methods, and, where appropriate, other calculations and statistical analysis. Actuarial methods used include the chain ladder method.

Chain ladder methods extrapolate paid amounts, incurred amounts (paid claims plus case estimates), the number of claims or average cost of claims, to ultimate claims based on the development of previous years. This method assumes that previous patterns are a reasonable guide to future developments. Where this assumption is felt to be unreasonable, adjustments are made.

The selection of results for each accident year and for each portfolio depends on an assessment of the most appropriate method. Sometimes a combination of techniques is used.

(ii) Calculation of uncertainty margins

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims, and to ensure prudent provisions are made, an addition is made to the most likely outcome. The addition for prudence is assessed primarily by the Thomas Mack actuarial method, based on at least the 75th percentile confidence level for each portfolio. For smaller portfolios where the Thomas Mack method cannot be applied, provisions have been calculated at a level intended to be equally prudent. Where the standard methods cannot allow for changing circumstances then additional uncertainty margins are added and are typically expressed as a percentage of outstanding claims. In addition to this mathematical approach, from time to time the management may elect to reflect short term uncertainties using scenarios analyses. This approach generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years, as shown in part (viii) of the note.

(iii) Calculation of special provisions for latent claims

The Company adopts commonly used industry methods including those based on claims frequency and severity and benchmarking. The Company also includes additional reserves for exposure where limited information is currently known, however risks have been identified.

(iv) Assumptions

The Company follows a process of reviewing its reserves for outstanding claims on a quarterly basis. This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology. The work conducted on each portfolio is subject to an internal peer review and management sign-off process.

The most significant assumptions in determining general insurance reserves are the anticipated number and ultimate settlement cost of claims, and the extent to which reinsurers will share in the cost. Factors which influence decisions on assumptions include legal and judicial changes, significant weather events, other catastrophes, subsidence events, exceptional claims or substantial changes in claims experience and developments in older or latent claims. Significant factors influencing assumptions about reinsurance are terms of the reinsurance treaties, the anticipated time taken to settle a claim and the incidence of large individual and aggregated claims.

(v) Change in assumptions

There are no significant changes in assumptions.

(vi) Sensitivity of results

The ultimate amount of claims settlement is uncertain and the Company's aim is to reserve to at least the 75th percentile confidence level. The following table illustrates the sensitivity to changes in the level of claims in the principal segments of the business.

If final settlement of insurance claims reserved for at the year end turns out to be 10% higher or lower than that included in these financial statements, the following pre-tax loss or profit will be realised:

	2020		2019	
	Gross £000	**Net £000**	Gross £000	Net £000
Liability	**280**	**76**	275	76
Property	**53**	**-**	78	-

(vii) Claims development tables

The nature of insurance business is that claims may take a number of years to settle and before the final liability is known. The following table shows the development of the estimate of ultimate gross claims cost for these classes across all territories. Net liability for the periods covered in the table is zero as all business in these periods is 100% reinsured. A net liability remains in respect of earlier periods.

	2011 £000	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**2020 £000**	**Total £000**
Estimate of ultimate claims:											
At end of year	1,414	1,227	1,134	1,889	1,425	1,105	1,571	1,904	920	1,137	
One year later	1,071	927	954	1,796	1,109	991	1,048	1,819	659		
Two years later	1,024	868	889	1,740	954	950	983	1,767			
Three years later	924	832	883	1,317	942	849	949				
Four years later	919	882	856	1,302	944	874					
Five years later	1,018	876	854	1,302	945						
Six years later	1,008	872	857	1,307							
Seven years later	1,003	873	858								
Eight years later	1,011	882									
Nine years later	1,009										
Current estimate of ultimate	1,009	882	858	1,307	945	874	949	1,767	659	1,137	10,387
Cumulative payments to date	(952)	(820)	(806)	(1,256)	(893)	(786)	(897)	(1,640)	(477)	(567)	(9,093)
Outstanding liability	57	62	52	51	52	89	52	127	181	571	1,294

Liability in respect of earlier years	2,040
Total gross liability included in insurance liabilities in the balance sheet	3,334
Reinsurers' share of contract provisions	(2,572)
Total net liability	762

(viii) Movements in insurance liabilities and reinsurance assets

	Gross £	Reinsurance £	Net £
Claims outstanding			
At 1 January 2020	**3,534,442**	**(2,771,940)**	**762,502**
Cash paid for prior year claims settled in the year	**(399,403)**	**398,494**	**(909)**
Change in prior year liabilities/reinsurance assets	**(372,063)**	**371,972**	**(91)**
Prior year liabilities/reinsurance assets at 31 December 2020	**2,762,976**	**(2,001,474)**	**761,502**
Current year claims incurred	**1,137,318**	**(1,137,318)**	-
Cash paid for current year claims settled in the year	**(566,743)**	**566,743**	-
Current year liabilities/reinsurance assets at 31 December 2020	**570,575**	**(570,575)**	-
At 31 December 2020	**3,333,551**	**(2,572,049)**	**761,502**
Provision for unearned premiums			
At 1 January 2020	**1,975,468**	**(1,975,468)**	-
Movement in the year	**14,542**	**(14,542)**	-
At 31 December 2020	**1,990,010**	**(1,990,010)**	-
Claims outstanding			
At 1 January 2019	4,315,410	(3,759,908)	555,502
Cash paid for prior year claims settled in the year	(819,680)	819,680	-
Change in prior year liabilities/reinsurance assets	(625,864)	832,864	207,000
Prior year liabilities/reinsurance assets at 31 December 2019	2,869,866	(2,107,364)	762,502
Current year claims incurred	920,601	(920,601)	-
Cash paid for current year claims settled in the year	(256,025)	256,025	-
Current year liabilities/reinsurance assets at 31 December 2019	664,576	(664,576)	-
At 31 December 2019	3,534,442	(2,771,940)	762,502
Provision for unearned premiums			
At 1 January 2019	1,953,798	(1,953,798)	-
Movement in the year	21,670	(21,670)	-
At 31 December 2019	1,975,468	(1,975,468)	-

The net liability for unearned premium is £nil (2019: £nil) as the company's provision is exactly matched by the corresponding reinsurer's share asset.

Notes to the Financial Statements

22 Other liabilities

	2020	2019
	£	£
Creditors arising out of direct insurance operations	**79,605**	61,581
Creditors arising out of reinsurance operations	**162,376**	3,153
Other creditors	**113,993**	123,981
Amounts owed to related parties	**1,996**	1,996
Accruals and deferred income	**58,973**	126,642
	416,943	317,353
Current	**414,947**	315,357
Non-current	**1,996**	1,996

The above carrying amounts are a reasonable approximation of fair value.

The creditors arising out of reinsurance operations comprises £709,106 (2019: £698,402) payables net of £546,730 (2019: £926,360) receivables. Note that in 2019, the overall result generated a net debtor position.

23 Related Party Transactions

The Company has a reinsurance treaty with ElO whereby all business accepted by the Company is fully reinsured with EIO with the exception of terrorism cover which is reinsured through a third party, Pool Re. Reinsurance premiums are accounted for at the time the business is written by the Company. The Company's and the reinsurers' share of claims are recognised at the time the claims are notified or earlier by way of a provision for claims incurred but not reported.

The Company operates a Joint Administration Agreement with EIO under which all administration expenses are borne by EIO.

During the year the Company ceded premiums net of claims paid and commissions to the value of £2,623,356 (2019: £2,461,611) to EIO, which also bore expenses of the Company's business of £969,795 (2019: £957,000). The reinsurer's share of technical provisions due from EIO as at 31 December 2020 is £3,950,560 (2019: £4,103,000), which consists of £1,990,010 (2019: £1,975,000) of unearned premium and £1,960,549 (2019: £2,128,000) of outstanding claims. At 31 December 2020, £156,733 was due to EIO (2019: £229,000 due from EIO).

Recipients of grants are proposed by the grants committee, and ratified by the Board. During the year, nothing has been paid or accrued (2019: nil paid or accrued) for The Baptist Union of Great Britain.

Transactions and services with related parties are made on commercial terms.

24 Subsidiary undertakings

The Company's interest in subsidiary undertakings at 31 December 2020 is as follows:

	Share Capital	**Holding**
Baptist Support Services Limited	Ordinary shares	99.8%
Baptist Insurance Services Limited	Ordinary shares	99.8%

The Company is the controlling party of both subsidiaries which are incorporated in England and Wales, are dormant, having not traded since incorporation, and are not material to the Company's accounts. Their registered office is the same as the Company's address as noted on page 3.

BaptistInsurance

Experts in church and home insurance

04/21