THE WREN INSURANCE ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 30 June 2020

2020

Wren

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The Wren Insurance Association Limited ('Wren' or 'the Association') is a mutual insurance company which provides professional indemnity insurance to a select group of architectural practices. Founded in 1987, at the date of signing these financial statements it currently has 63 Members.

The Association's strategic objectives were first established in response to the concerns of its founding Members, and are regularly reviewed to ensure that they remain relevant. At the most recent review in 2019, the main strategic objectives were agreed as follows:

- Deliver cost-effective insurance in the long-term;

- Provide Members with control over their professional indemnity insurance and promote the interests of the membership as a whole on insurance issues affecting architects;

- Maintain appropriate cover and assist Members to align their contractual liabilities with the cover provided;

- Maintain stability in the cost of cover and remain as independent of reinsurance as is appropriate;

- Improve standards in controlling and managing risk within Member practices;

- Meet the highest standards of governance, risk management and financial practice within the Association; and

- Contribute towards the development of new talent in the architectural industry.

Finance and underwriting

The Association's financial statements for the year ended 30 June 2020 have been prepared in the midst of the coronavirus pandemic, with significant volatility in investment markets and wider economic uncertainties caused by the lockdowns that have been imposed by governments worldwide. In addition, the Association has seen increased exposure to cladding-related claims, as more fully explained below. The combination of these factors means that the overall result for the year was a deficit of £10.7 million, which resulted in the Association's capital decreasing from £48.9 million to £38.2 million. However, the Association remains in a sound financial position, with capital in excess of the Solvency Capital Requirement set by the Prudential Regulation Authority.

At the renewal on 1 July 2019, there was no general rate increase and call rates and Members' fee income were relatively stable. The Association saw further growth in membership with three new Members joining the Association and one Member terminating its membership during the 2019/20 policy year. At the end of the policy year the Association had 66 Members. Overall, total call income of the Association was marginally higher than the prior year at £10.7 million.

Underlying reinsurance costs were at a similar level to the prior year. There was a marginal reduction in the reinsurance rate compared to the prior year. Reinsurance costs are slightly higher than the prior year due to higher advance calls compared to the prior year.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was marginally higher than the previous year at £2.4 million. This was the result of an increase in the value of the investment portfolio and the longer-term rate of return being higher at 3.1% compared to 2.8% in the prior year.

Net claims incurred for the financial year were significantly higher than the prior year – £15.3 million against £0.7 million. Gross claims paid, at £1.9 million, were lower than the prior year's figure of £2.2 million but this simply reflects the timing of settlement. There were no reinsurance recoveries in the year.

Claims notified in the 2019/20 policy year were marginally lower in value than in 2018/19, but higher in number, at 153. None of these notifications carried a figured reserve above £100,000. The Association has continued to receive new notifications that involve potential issues with cladding that have been made on a precautionary basis following the Grenfell Tower fire in June 2017. A number of these notifications, although precautionary in nature, have the potential to develop into significant claims for the Association.

The Managers and the Board have spent the last six months reviewing the reported cases to assess the potential liability, even though there is limited information available to identify fault at this stage. This may become clearer once the outcome of the Grenfell Inquiry is known. Following the Association's usual prudent approach to reserving, these cladding-related notifications have resulted in a significant projected increase in the Association's gross provision for claims, which at 30 June 2020 had increased by £13.6 million compared to the prior year to stand at £41.7 million. There is also a projected reinsurance recovery on outstanding claims of £149,999.

During the financial year the reserving methodology was updated which resulted in the Association reserving on a best estimate basis with an added margin of prudence. The margin of prudence released from the older policy years was offset against the significant increase in the claims provisions in the three most recent policy years to account for the cladding notifications.

Operating costs were higher than in 2019 at £5.2 million, reflecting an inflationary increase to the management fee and regulatory fees. The balance on the underwriting (technical) account was a deficit of £8.9 million.

The actual investment return achieved for the year, at £0.7 million, was below the long-term rate, which resulted in a transfer from the investment reserve, after adjusting for tax, of £1.3 million. More detailed commentary on the investment performance is set out in the investment report below.

The free reserves of the Association at 30 June 2020 in aggregate stood at £38.2 million. The investment reserve reduced to £11.1 million, reflecting the transfer to the income and expenditure account referred to above. The income and expenditure account grew by £3.1 million, resulting from the release of surplus claims reserves in the oldest seven policy years, and transfers from the reinsurance reserve in respect of the three most recent years, to stand at £12.9 million. The general reserve increased to £13.7 million, and finally the reinsurance reserve fell significantly to stand at £0.5 million. The Association overall remains adequately capitalised.

The Board held four meetings during March and April to discuss the impact of the precautionary notifications relating to cladding. Following these discussions it was recommended that a general rate increase of 70% be applied at 1 July 2020 and that cladding cover be capped at an aggregate exposure for the Association. At the 2020 renewal, all of the Association's Members bar two renewed their cover.

Investment strategy and performance

The Association's investment strategy is the responsibility of the Board, assisted by its investment managers, Mercer. There has been no material change to the Association's investment strategy during the year following the implementation of the fiduciary management model at the end of the previous financial year.

The Association's investment strategy is a long-term one, reflecting the long-tail nature of many of the liabilities and the nature of mutuality. The investment strategy is twofold:

- To hold a portfolio of government bonds and cash which matches, in terms of average duration and currency, the claims liabilities of the Association. This is known as the 'matching portfolio'; and

- To invest the assets in excess of the matching portfolio, in accordance with the 'prudent person principle', in such a way as to achieve the maximum return for a level of risk consistent with the Association's investment risk appetite. This is known as the 'growth portfolio'.

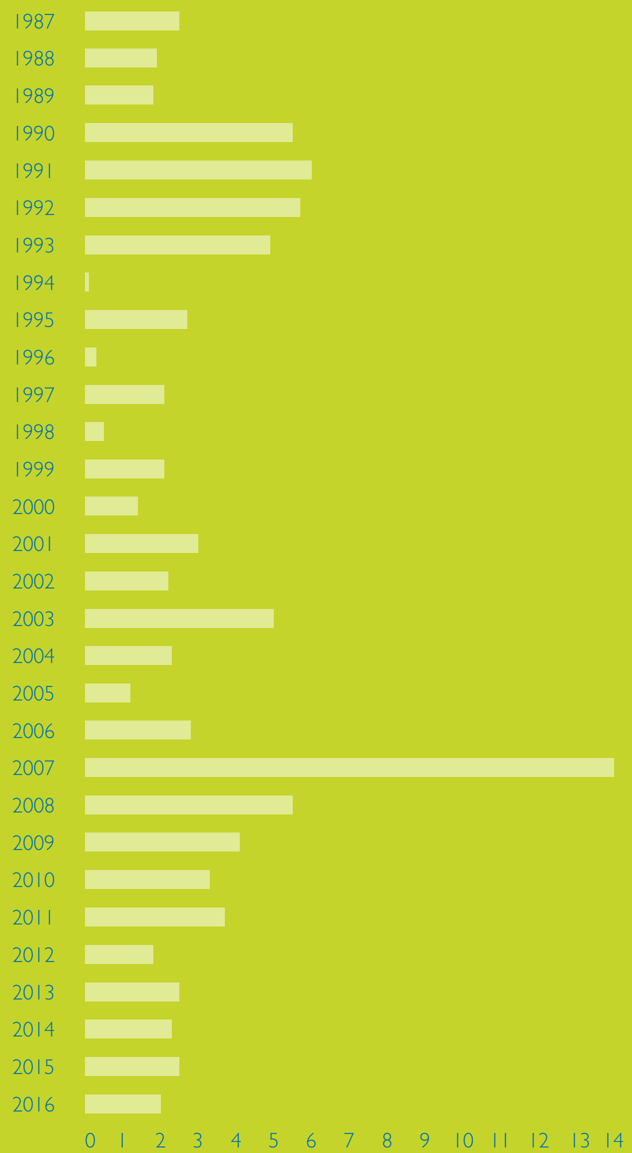
The Association's investment portfolio experienced significant volatility during the financial year with strong investment returns seen through to the middle of February 2020 but markets then turning negative following the uncertainty relating to Coronavirus Disease 2019 (COVID-19) and the impact thereof on global economic growth. Investment markets retreated through to the end of March 2020 and have since then remained volatile but the Association's investment portfolio has recovered post the low point seen at the end of March 2020, to generate a marginal positive return.

In the year ended 30 June 2020, the overall return on investments was 1.0% compared to a long term rate of return of 3.0%, which is equivalent to £0.7 million. The best performing asset class was the Global Buy and Maintain fund with a return of 6.3%.

Claims

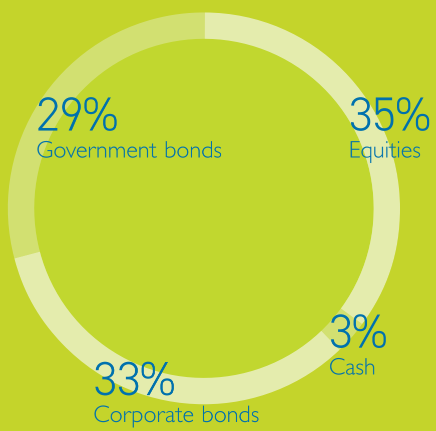
The claims picture continued to be dominated by the turmoil that followed the Grenfell Tower fire in June 2017. Since Grenfell, there have been further high-profile fires, concerns have been raised about the fire performance of a range of cladding and insulation materials used on buildings, the regulatory landscape within which construction participants operate has shifted and nervousness among mortgage lenders has affected owners' ability to sell or re-finance their properties. As a result, the insurance industry has continued to restrict the scope of cover available to construction practitioners in relation to cladding and fire-related claims. Not surprisingly, the Association has seen an increase in the number of cladding-related notifications.

Claims before reinsurance recoveries £m



(Data in 2017, 2018 and 2019 policy years is insufficient to make accurate projections)

Investment holdings at 30 June 2020



Most of these notifications are precautionary and at an early stage of development, as potential claimants await the outcome of the Grenfell Inquiry and the first Court decisions in cladding cases. The Association's prudent reserving of those notifications is based on conservative assumptions as to the possible outcomes in an environment where there is very little hard data and a large amount of uncertainty. The Association has yet to make a claim payment in respect of a cladding notification.

The number of all matters notified to the Association during the 2019/20 policy year increased slightly compared to the previous year. If, however, cladding notifications are taken out of the equation, the number of matters notified shows a fall compared to prior years, despite the increase in membership.

Contract review

Whilst the number of appointments and other contractual documents reviewed by the Managers remained high during the first nine months of the policy year, reflecting both an increase in membership of the Association and the number of projects being undertaken by its Members, those numbers have fallen since government restrictions in relation to COVID-19 have started to impact the construction industry. The potential risks of being unduly exposed to a claim, however, have increased. Developers and contractors are reacting to cover restrictions being imposed on consultants (and those consultants protecting themselves as a result by imposing a cap on their liability) by rejecting Members' requests to limit their contractual liability to those losses for which they are solely responsible and, increasingly, transferring the risk of appointing the team by requiring Members to engage them as their sub-consultants. Much of the focus of the contract review service has been on advising the Members, their clients and their clients' advisers of the coverage and financial consequences of this and endeavouring to agree alternative drafting that works to the benefit of all involved. Meanwhile, the Managers have continued to negotiate standard appointments with developers, contractors and consultants, as well as providing ongoing input, when requested, into the drafting of industry standard appointments.

Risk management of Members

The 2018-20 programme of Wren risk management reviews of Member offices in the UK and overseas concluded in January 2020. A summary report of the programme's findings was published to the membership in April 2020. The current programme commenced in May 2020, with reviews initially being conducted remotely due to COVID-19 restrictions. During this programme, the Managers are using a film dramatisation of a fictional 'problem project' in risk awareness workshops. Updates and additions to the Wren Risk Management Guidelines continue to be published on the Wren website to reflect the most recent developments in the construction industry, the latest Court decisions, new or pending legislation and Members' claims experience.

Rules of the Association

The Managers and the Board continue to review the cover provided by the Association to ensure that it meets the needs of the Members and responds to developments in the market, while remaining as broad as is sustainable in the long-term. No changes were made to the Rules for the policy year commencing 1 July 2020.

Principal business risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. The Association is focussed on identification and management of potential risks. The key areas of risk to the Association are set out below:

- **Underwriting risk** – incorporating premium and reserving risk
- **Market risk** – incorporating interest rate risk, equity risk, spread risk and currency risk
- **Counterparty risk** – being the risk that a counterparty is unable to pay amounts in full when due
- **Operational risk** – being the risk of failure of internal processes or controls

The business risks and uncertainties are discussed further in Note 9 to the Financial Statements.

Market conditions

Following the Grenfell Tower fire, the wider insurance sector has a reduced appetite for covering liabilities relating to fire or cladding, with several Lloyd's and company market insurers seeking to impose exclusions and/or restrictions on the terms of cover provided to architects and other designers, consultants, contractors and sub-contractors.

The Board of the Association agreed to commission a report on the status of the commercial insurance market for architects' professional indemnity insurance, written by Flaxman Partners, and this has been distributed to Members, their clients and other stakeholders.

The continuation of cover for liabilities related to combustibility of cladding has been a key risk facing the Association and has been the subject of considerable discussion by the Board, with the Board meeting four times during March and April 2020 rather than just once in March as normal. The risk has been assessed through scenario testing carried out as part of the Association's Own Risk and Solvency Assessment.

The Board agreed to continue to provide cover for Cladding claims (as defined) involving Residential buildings (as defined) from 1 July 2020 but to limit the cover provided by the Association on a per Member per policy year basis, capped for all cladding claims in the policy year, with some reinsurance protection secured.

The Managers and the Board continue to review the cover provided by the Association to ensure that it meets the needs of the Members and responds to developments in the market, while remaining as broad as is sustainable in the long-term.

In the light of the reaction of the commercial insurance market to the increased claims exposure arising from cladding notifications, there has been an increase in enquiries from potential Members. The Managers and the Board continue to maintain high standards before offering terms for membership and the due diligence carried out is robust.

COVID-19

COVID-19 impacts the Association in two ways. The first relates to the impact on construction activity. Although the Members' combined fee income (for their last completed financial years) will be higher for renewal at 1 July 2020 compared to the levels declared for renewal at 1 July 2019, many Members are concerned about income and cashflow over the coming year due to construction activity being put on hold. The Managers are satisfied that Members have adapted to working from home and continue to provide good service standards in the circumstances. The Managers are not concerned that project delays caused by COVID-19 factors will generally lead to professional negligence claims.

The second relates to the Association's investment performance which is covered earlier in the Strategic Report.

The assessment of the impact of COVID-19 on the Association is disclosed below.

Premiums

The impact on the operation of the Association's Members has been through the slowdown in construction activity when the UK was placed in lockdown. Although the Members' combined fee income (for their last completed financial years) will be higher for renewal at 1 July 2020 compared to the levels declared for renewal 1 July 2019, many Members are concerned about income and cashflow over the coming year due to construction activity being put on hold. The directors do not expect any significant impact on premiums; however, payment terms have been amended for the 2020/21 policy year to align with Members' cashflow forecasts.

Claims exposure

The Managers are satisfied that Members have adapted to working from home and continued to provide good service standards in the circumstances. The Managers are not concerned that project delays caused by COVID-19 factors will generally lead to professional negligence claims.

Reinsurance security

The reinsurance market will be severely impacted by the pandemic, possibly suffering its biggest ever loss from a single event. The Association's reinsurance security is well rated. The covers are placed either at Lloyd's, which is rated A+ by Standard and Poor's and has the benefit of the Central Guarantee Fund, or with security with a minimum rating of A- by Standard and Poor's.

Operations

The Association operates from its offices in London. Operations have continued uninterrupted as a result of the Association's robust business continuity arrangements. The Managers continue to provide normal levels of service, notwithstanding that the majority of our staff are working remotely.

Solvency position

The Association remains adequately capitalised, with headroom over its statutory solvency requirements.

Conclusion

The directors have considered the impact on the Association's business of the COVID-19 pandemic and have concluded, based on the analysis above, that there is no material risk to the Association being able to continue its operations for the foreseeable future. The financial statements were authorised for issue by the Board on 23 September 2020.

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STRATEGIC REPORT

The impact of 'Brexit'

The Board considered the financial impact of securing alternative insurance arrangements, reinsured by the Association, which would allow the Association to continue to cover EU risks without passporting rights post-Brexit. It was agreed that it was prohibitively expensive to put these arrangements in place and those Members with EU subsidiaries have been informed that the Association will not be able to insure new EU risks from 1 January 2020. Existing risks will be serviced until 30 June 2021 where this is acceptable to the domestic regulator.

Future development

Prudent financial management and the absence of pressure from any outside interests seeking a short term return ensure that the Association has the financial security and sustainability that allow it to continue to deliver the support and protection sought by its existing Members. The Managers welcome discussion with potential Member firms but terms are not offered unless specific approval to do so is obtained from the directors.

Wren scholarships

The RIBA Wren Insurance Association Scholarships were initially set up by the Association in 2012. The scholarships support the Association's strategic objective of contributing towards the development of new talent in the architectural profession by providing financial assistance to a select number of outstanding Part 2 students who have the potential to make a significant contribution in the field of architecture.

Five scholarships of £6,000 each will be awarded in September 2020. Scholarship winners are given the opportunity of being individually mentored by Members of the Association and are invited to meet each other and representatives from the membership at the Members' Forum, which takes place in March each year. This was not possible in March 2020 due to social distancing rules.

Statement of Compliance with Section 172(1) of the Companies Act 2006

Section 172(1) of the Companies Act 2006 requires the directors to promote the success of the Association for the benefit of the Members and other key stakeholders. In doing so, the directors must have regards to six areas:

- The likely consequences of any decision taken in the long term;
- The interests of employees, which in the case of the Association relates to those employed by the Association's Managers;
- The need to foster business relationships with suppliers, customers and others;
- The impact of the operations of the Association on the community and the environment;
- The desire to maintain a reputation for high standards of business conduct; and
- The need to act fairly between the Members of the Association.

The Association's key stakeholders are the Members, who comprise the architectural practices that have their professional indemnity insurance provided by the Association. The Association's corporate governance structure includes a Committee, which has a representative from each Member practice, and which allows wider engagement with the membership on the impacts of the main decisions of the Board, which include call setting, investment strategy and setting the Association's strategic direction. Further engagement with the membership takes place through the technical forums and risk management of Members as described earlier in the Strategic Report.

The other principal stakeholders that have been identified by the Board are the Managers, Tindall Riley & Co. Ltd, and their employees, who carry out all the day to day operational and management functions of the Association, and those others that provide services to the Association such as investment managers, professional advisers, , the Association's reinsurers and its reinsurance broker. The Association has built strong relationships with these stakeholders over the years. In particular, the average length of the current membership of the Association is 17 years.

One of the Board's seven risk appetite statements relates to the long-term sustainability of the Association's business. All key decisions of the Board, such as those set out above, have regard to this principle such that 'short-termism' is avoided in favour of the long-term view. The Board also sets economic capital targets at very high levels of confidence with the aim of achieving long-term financial stability.

The relationship between the Association and the Managers, which dates back over 30 years, is symbiotic, in that the success of one is inextricably linked to the success of the other. Decisions taken by the Board that directly impact the Managers, such as the amount of the management fee, take full account of this relationship, having regard to service levels and accountability.

The Association has for many years aligned the way that it does business with the Regulators' conduct rules, such as 'treating customers fairly'. As a mutual insurance business, the fair treatment by the Association of its Members is a fundamental principle. It has in place an Ethics policy which sets out these regulatory conduct rules and covers additional areas such as the whistleblowing policy, how the Association manages conflicts of interest, the remuneration policy, the Association's modern slavery statement and the anti-bribery and corruption policy. The Association also has a Financial Crime policy.

The Association's reputation is fundamental to its ability to carry out its business and it seeks to protect this reputation by sticking firmly to the principles of fairness and sound business conduct that the Board has established.

A D Stanford
Chairman
23 September 2020

The directors have pleasure in presenting their report together with the audited financial statements for the year to 30 June 2020.

The principal activity of the Association is the insurance of the professional indemnity risks of architects and other building design professionals. The strategic report on the preceding pages provides a summary of the principle matters affecting the Association's business during the year.

The names of the directors are shown on page 32. Mr S C G Scriven retired from the Board on 12 December 2019. At the annual general meeting on 25 March 2020, Messrs Lawrence, Stanford, Tidmarsh and Ms Wells retired by rotation and were reappointed. The Members also agreed to reappoint Mrs J M Carpenter, who had been appointed by the Board in December 2019 to fill the vacancy arising from Mr Scriven's retirement.

The Board met seven times during the year under review, in September, December, March (twice), April (twice) and June. The list below details the more important matters considered at those meetings, many of which are discussed further in the Strategic Report:

- Future Strategy
- Membership, including consideration of potential new Members
- Investment Performance and Strategy
- Claims and Claims Payments
- Risk Management of Members
- Contract Review
- Risk and Compliance
- Corporate Governance
- Appointment and Retirement of Directors and Senior Managers
- Report and Financial Statements
- Regulatory Capital Requirements and Technical Provisions
- Managers' and Directors' Remuneration
- Call Rates
- Reinsurance Arrangements
- Rules of the Association
- Brexit
- Sponsorship of Architectural Students

Directors' indemnity insurance

The Association has purchased directors' and officers' liability insurance in respect of all the Association's directors.

Financial instruments

Information on the use of financial instruments by the Association and its management of financial risk is addressed in Note 9 to the financial statements. The Association's exposure to cash flow risk is addressed under the headings of Market risk, Credit risk and Liquidity risk in that note.

Future developments

Likely future developments affecting the Association are discussed in the Strategic Report.

Audit

The directors have delegated day to day responsibility for the maintenance of the Association's accounting records and the preparation of the financial statements to the Managers. They have confirmed that they have provided the auditor with all relevant audit information of which they are aware. The Audit Group has considered the financial statements with the Managers, met privately with the auditor, and reported to the Board.

So far as each person who is a director at the time of this report is aware, there is no relevant audit information of which the Association's auditor is unaware. The directors confirm that they have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

A tender process for the appointment of the Association's auditor was carried out during the year. The Audit Group presented its recommendations to the Board in December 2019 and the Board agreed that Mazars LLP should be appointed to succeed BDO LLP as auditor of the Association. Mazars LLP was appointed as the Association's Auditor at the Annual General Meeting on 25 March 2020, replacing BDO LLP who resigned with effect from 23 March 2020. There were no matters connected to the outgoing auditor's ceasing to hold office which needed to be brought to the attention of the Members or creditors of the Association. Mazars LLP have expressed their willingness to be reappointed as auditors of the Association and, subject to no objections being received, will be deemed to be reappointed in accordance with Section 487 of the Companies Act 2006.

The directors confirm that, to the best of their knowledge, the Strategic Report on pages 1 to 6 includes a fair review of the development and performance of the business and the position of the Association, together with a description of the principal risks and uncertainties that it faces.

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Subsequent events

Subsequent events, have been considered and are more fully disclosed in note 11 to the financial statements.

By order of the Board
S N Parramore
Secretary
23 September 2020

AUDIT GROUP REPORT

The key role of the Audit Group is to protect Members' interests in relation to the Association's financial reporting and internal controls. I am pleased to present the Audit Group's Report on how the Group fulfilled that role in the year to 30 June 2020.

There were no changes to the composition of the Audit Group during 2019/20. The Group draws on the pool of senior finance personnel within Member firms and comprises the following non-executive directors of the Association:

Anthony Poole, BSC Hons BA Hons Dip Arch ARB RIBA (Member since March 2018)
William Ryan, BA FCCA (Member since June 2013)
Heather Wells, BSC Hons ACMA (Member since June 2013) (Chair)

The Audit Group meets at least three times each year and receives regular reports from the Managers during the course of the year.

Financial reporting

In relation to financial reporting, the Audit Group advises the Board on the Association's annual Report and Financial Statements and the Association's Solvency and Financial Condition Report to the Prudential Regulation Authority. In reaching its recommendations, the Group:

- considers the independence of the Association's external auditors, Mazars LLP, and identifies any actual or perceived threats to their independence and/or conflicts of interest they may have within the regulatory or professional requirements governing them as auditors of the Report and Financial Statements;
- liaises closely with the Association's external auditors in the planning and conduct of the audit of the Report and Financial Statements;
- receives reports from the auditors, particularly in relation to their findings on key audit matters concerning the Report and Financial Statements;
- in conjunction with reports received from the Chief Actuary and the Managers, scrutinises the methodology adopted in setting the Association's technical provisions and the quantum thereof as stated in the Association's Annual Report and Financial Statements and the Association's Solvency and Financial Condition Report;
- considers the external audit report and the content of the auditors' completion report in connection with their audit of the Report and Financial Statements; and
- meets with the auditors independently of the Managers to discuss any matters of concern.

The Audit Group is pleased to report that the 2020 external audit proceeded smoothly and that no matters of concern were raised.

The Audit Group is also charged to make recommendations to the Board concerning the appointment or reappointment of the external auditors. A tender process was carried out during the year, at which the Audit Group received presentations from a number of firms. The Audit Group presented a shortlist of candidates and its recommendation for the appointment of Mazars LLP to the Board at its meeting in December 2019.

Internal audit

At each of its meetings in 2019/20, the Audit Group received reports from the Association's internal auditor. The internal auditor's findings were discussed at each meeting. In addition, the Chair met with the internal auditor a number of times during the year, independently of the Managers, to ensure that the internal auditor had the opportunity to raise any matters of concern; no such matters were raised. At its meeting in June 2020, the Audit Group approved the Association's internal audit plan for 2020/21 and confirmed that the internal audit function continued to be effective and appropriate for the Association's business.

Governance

At its meeting in June 2020, the Audit Group reviewed its performance over the preceding year with the assistance of the Managers and concluded that it had met its terms of reference. It updated those terms of reference to align its role more closely to the Guidance on Audit Committees published by the Financial Reporting Council (FRC). The revised Terms of Reference were approved by the Board at its meeting in June 2020.

H O Wells
Chair of the Audit Group
23 September 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Statutory Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'. 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 Association and of the surplus or deficit of the Association for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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INDEPENDENT AUDITORS' REPORT

To the Members of the Wren Insurance Association Limited

Opinion

We have audited the financial statements of The Wren Insurance Association Limited ('the Association') for the year ended 30 June 2020 which comprise the Income and Expenditure Account, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 30 June 2020 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 Association 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures. These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Area of focus

Valuation of technical provisions

The gross technical provisions at 30 June 2020 were £41,664,245 (2019: £28,095,483).

The valuation of technical provisions is a key area of judgement and management estimation.

Professional indemnity insurance is inherently more uncertain than other classes of business, and for the Association these are more complex claims given the longer tail and due to the architects being jointly and severally liable for losses. The long-tail claims settlement pattern and volatile nature of the Association's claims experience makes it more difficult to predict, with accuracy, the estimated total claims costs.

The Association underwrites professional indemnity insurance on a 'claims made' basis and recognises technical provisions primarily made up of case reserves and a provision for 'Incurred But Not Enough Reported' ('IBNER').

The provision for IBNER is the most subjective and is based on the estimate of the ultimate cost to settle all claims, including the related costs of handling the claims.

There has been an increase in cladding claim notifications and an increase in NAB (not enough information to apply a meaningful figured reserve but with potential to be big) claims which are the most subjective estimates.

Given the level of subjectivity and judgement, there is a risk that inappropriate reserve projections are made, and we therefore identified the valuation of technical provisions as a significant risk and a key audit matter.

How our audit addressed the area of focus and our key observations

We reviewed the year-end claims reserving position of the Association and, in conjunction with specialist members of our actuarial team, we performed the following audit procedures:

- We gained an understanding of the reserving process used by the actuaries of the Association and of the related controls, paying particular attention to the process surrounding NAB claims;
- We reviewed the Reserving Paper produced by the Association's internal actuarial team as at 30 June 2020;
- We reviewed the data reconciliation and validation performed by the actuaries of the Association to determine if the data used for reserving was reasonable;
- We checked the integrity of the data used by the actuaries by agreeing it to the accounting records and considered whether the data used for reserving was complete and accurate;
- We considered the appropriateness of the actuarial methodologies and assumptions applied;
- We compared the actual gross incurred and paid claims positions at 30 June 2020 with those expected at 30 June 2020 and considered the reasons for differences;
- We performed diagnostic checks in order to understand the developments in the paid and incurred data;
- We performed an independent reserve projection comparing our independent reserve projection to that derived by the actuaries of the Association; and
- We considered the methodology for the reserving of NAB claims (both cladding NABs and other NABs), and reviewed the adequacy of case estimates for NABs.

Overall, based on the audit work performed, the recorded technical provisions are fairly stated and consistent with the evidence obtained.

INDEPENDENT AUDITORS' REPORT

To the Members of the Wren Insurance Association Limited

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality

£867,000.

How we determined it

2% of the Association's net assets.

Rationale for benchmark applied

In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that net assets was the most relevant benchmark as it best represents the financial stability and solvency of the Association.

Performance materiality

Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

Performance materiality of £607,000 was applied in the audit.

Reporting threshold

We agreed with The Audit Group that we would report to them misstatements identified during our audit above 3% of overall materiality, which is £26,000 based on overall materiality, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit, including extent to which the audit was considered capable of detecting irregularities, including fraud

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Association, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities, including non-compliance with laws and regulations, our procedures included but were not limited to:

- at the planning stage, we gained an understanding of the legal and regulatory framework applicable to the Association, the industry in which it operates and considered the risk of acts by the Association which were contrary to the applicable laws and regulations;
- we discussed with the directors the policies and procedures in place regarding compliance with laws and regulations;
- We discussed amongst the engagement team the identified laws and regulations, and remained alert to any indications of non-compliance; and

• during the audit, we focused on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the managers of the Association, from inspection of the Association's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the Prudential Regulation Authority. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006.

Our procedures in relation to fraud included but were not limited to:

• inquiries of management on whether they have knowledge of any actual, suspected or alleged fraud;
• gaining an understanding of the internal controls established to mitigate risk related to fraud;
• discussion amongst the engagement team regarding risk of fraud such as opportunities for fraudulent manipulation of the financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to technical provisions as discussed above, and significant one-off or unusual transactions; and
• addressing the risk of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under 'Key audit matters' within this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 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 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 this 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 Statutory Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
• the Strategic Report and the Statutory Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Statutory 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 by the Association, or returns adequate for our audit have not been received from branches not visited by us; or
• the Association 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 Statement of Directors' Responsibilities set out on page 13, 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.

INDEPENDENT AUDITORS' REPORT

To the Members of the Wren Insurance Association Limited

In preparing the financial statements, the directors are responsible for assessing the Association'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 Association 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.

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

Other matters which we are required to address

Following the recommendation of The Audit Group, we were appointed by the Board of Directors on 16 December 2019 to audit the financial statements for the year ending 30 June 2020 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 30 June 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Association and we remain independent of the Association in conducting our audit.

Our audit opinion is consistent with the additional report to The Audit Group.

Use of our report

This report is made solely to the Association'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 Association'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 Association and the Association's members as a body for our audit work, for this report, or for the opinions we have formed.

Sam Porritt (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London E1W 1DD

23 September 2020

INCOME AND EXPENDITURE ACCOUNT

for the year ended 30 June 2020

Technical account – general business	Note		2020 £		2019 £
Earned premiums, net of reinsurance					
Calls and premiums	2	**10,671,611**		9,921,436	
Return calls	2	**–**		(1,580,977)	
			10,671,611		8,340,459
Reinsurance premiums			**(1,451,519)**		(1,510,412)
			9,220,092		6,830,047
Allocated investment return transferred from the non-technical account			**2,380,375**		2,127,814
			11,600,467		8,957,861
Claims paid					
Gross amount		**(1,882,893)**		(2,226,748)	
Reinsurers' share		**–**		–	
		(1,882,893)		(2,226,748)	
Change in the provision for claims	3				
Gross amount		**(13,568,762)**		1,571,018	
Reinsurers' share		**149,999**		–	
		(13,418,763)		1,571,018	
Claims incurred net of reinsurance			**(15,301,656)**		(655,730)
Net operating expenses	4		**(5,247,058)**		(4,573,091)
Balance on the technical account			**(8,948,247)**		3,729,040

Non-technical account	Note	2020 £	2019 £
Balance on the technical account		**(8,948,247)**	3,729,040
Investment income	5	**59,284**	7,476,653
Investment expenses		**1,510**	(240,006)
Unrealised gain/(loss) on investments		**676,657**	(3,801,882)
Allocated investment return transferred to the general business technical account	6	**(2,380,375)**	(2,127,814)
Net (deficit)/surplus before taxation		**(10,591,171)**	5,035,991
Taxation	7	**(140,143)**	(559,168)
Net (deficit)/surplus and total comprehensive income after taxation		**(10,731,314)**	4,476,823

There are no recognised gains and losses other than those included in the Income and Expenditure Account. Therefore no statement of other comprehensive income has been prepared. All amounts are derived from continuing operations.

The notes on pages 19 to 31 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

Assets	Note	2020 £	2019 £
Financial investments	8	**77,322,842**	76,583,607
Reinsurers' share of technical provisions			
Claims outstanding		**149,999**	–
Debtors			
Direct insurance operations – Members		**104,977**	61,145
Cash at bank		**3,127,837**	3,323,756
Accrued income		–	11,727
		80,705,655	79,980,235
Liabilities			
Capital and reserves			
Investment reserve		**11,067,517**	12,398,226
General reserve		**13,687,500**	13,250,000
Reinsurance reserve		**537,119**	13,465,194
Income and expenditure account		**12,911,327**	9,821,357
		38,203,463	48,934,777
Technical provisions			
Gross outstanding claims	3	**41,664,245**	28,095,483
Creditors			
Direct insurance operations – Members		**20,071**	1,660,617
Reinsurance operations		**326,006**	327,990
Taxation		**61,132**	545,616
Other creditors		**430,738**	415,752
		42,502,192	31,045,458
		80,705,655	79,980,235

Approved by the Board on 23 September 2020

A D Stanford Director
H O Wells Director

J P Rodgers Wren Managers

Companies House No. 2054592

The notes on pages 19 to 31 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Investment reserve £	General reserve £	Reinsurance reserve £	Income and expenditure £	Total £
At 30 June 2018	**11,304,042**	**13,250,000**	**10,224,172**	**9,679,740**	**44,457,954**
Surplus for the financial year	–	–	–	4,476,823	4,476,823
Transfer to investment reserve	1,094,184	–	–	(1,094,184)	–
Transfer to reinsurance reserve	–	–	3,241,022	(3,241,022)	–
At 30 June 2019	**12,398,226**	**13,250,000**	**13,465,194**	**9,821,357**	**48,934,777**
Deficit for the financial year	–	–	–	(10,731,314)	(10,731,314)
Transfer from investment reserve	(1,330,709)	–	–	1,330,709	–
Transfer from reinsurance reserve	–	–	(12,928,075)	12,928,075	–
Transfer to general reserve	–	437,500	–	(437,500)	–
At 30 June 2020	**11,067,517**	**13,687,500**	**537,119**	**12,911,327**	**38,203,463**

The Association is incorporated as a company limited by guarantee and does not therefore have share capital.

The investment reserve comprises the cumulative net transfers from the income and expenditure account equivalent to the net unallocated return on the Association's investment portfolio.

The general reserve has been established in accordance with Rule 32 of the Association to provide for any unforeseen contingencies, claims, expenses, losses or other outgoings of the Association. Transfers to this reserve are considered upon closure of each policy year. To date the 1987/88 to 2008/09 policy years have been closed.

The reinsurance reserve has been established in accordance with Rule 32 of the Association to meet the cost of any individual claim in excess of a specified attachment point up to the reinsurance attachment point of £3.0m and claims in aggregate above a specified attachment point, which are both set annually. The funds held in the reserve are available to meet claims in any open policy year where claims either exceed the agreed excess of loss trigger point or the aggregate trigger point.

The notes on pages 19 to 31 form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

Cash flows from operating activities	2020 £	2019 £
Net (deficit)/surplus before taxation	**(10,591,171)**	5,035,991
Adjustments for:		
Change in provisions for claims	**13,418,763**	(1,571,018)
(Increase)/decrease in insurance and other debtors	**(32,105)**	6,059,941
Decrease in insurance and other creditors	**(1,627,544)**	(431,105)
Investment income (net of expenses)	**(60,794)**	(7,236,647)
Unrealised (loss)/gain on investments	**(676,657)**	3,801,882
Cash from operations	**430,492**	5,659,044
Income taxes paid	**(624,627)**	(31,130)
Net cash generated from operating activities	**(194,135)**	5,627,914

Cash flows from investing activities		
Purchase of equity shares	**(1,837,241)**	(29,189,595)
Purchase of fixed interest investments	**(9,019,306)**	(46,994,950)
Sale of equity shares	**1,395,815**	21,858,940
Sale of fixed interest investments	**7,549,516**	45,705,940
Net change to deposits with credit institutions	**1,842,857**	2,881,265
Income from equity investments	**–**	477,882
Income from fixed income investments	**744**	799,335
Income from bank and other cash	**64,321**	(36,248)
Investment management expenses	**1,510**	(240,006)
Net cash from investing activities	**(1,784)**	(4,737,437)

Net (decrease)/increase in cash at bank	**(195,919)**	890,477
Cash at bank at the beginning of the financial year	**3,323,756**	2,433,279
Cash at bank at the end of the financial year	**3,127,837**	3,323,756

The notes on pages 19 to 31 form part of these financial statements.

1 Accounting policies

Basis of accounting

These financial statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) under the Companies Act 2006 and in accordance with applicable accounting standards in the U.K including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the U.K. and Republic of Ireland (FRS 102)'. In accordance with Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103), the Association has applied existing accounting policies for insurance contracts. The Regulations require the use of the term 'Profit and Loss Account' as a heading. The Statutory 'Profit and Loss Account' is replaced by an 'Income and Expenditure Account' in these financial statements, consistent with the mutual status of the Association.

Going concern

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements. Subsequent events have been considered and are more fully disclosed in note 11.

Statement of Compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including FRS 102, FRS 103 and the Companies Act 2006.

Policy year accounting

The Association's business is accounted for on an annual basis. For the purposes of reporting to mutual Members, all transactions, including calls, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is decided by the date on which the claim or the incident giving rise to the potential claim is notified to the Association. Other income and expenditure is allocated to the current policy year except investment returns which are allocated to policy years on the same basis as they are credited to the technical account – general business.

Members remain liable for their rateable proportions of any excess of claims and expenses over income for any open policy year and may, at the discretion of the directors, have returned to them any balance not retained and applied for the purposes of the Association. Underwriting years are closed only when the directors are satisfied that the information on claims payable is sufficiently reliable to enable the outcome of that year to be determined with reasonable accuracy.

The income and expenditure account presents the aggregate of changes during the financial year on all policy years, both open and closed.

Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to Members. Return calls are accounted for when approved by the directors, but credited to the Member's account on renewal as at 1st July. Since all insurance policies are coterminous with the Association's financial year, there are no unearned premiums at the year-end date.

Outward reinsurance premiums are accounted for in the same period as calls and premiums for the related insurance.

Claims and reinsurance recoveries

Claims incurred include all claims and claims settlement expense payments made during the year and the movement in the provision for outstanding claims.

Reinsurance recoveries and reinstatement premiums are accrued to match the relevant claim amounts that have been charged to the income and expenditure account.

1 Accounting policies

Investment income

Investment income includes interest and dividends receivable for the year. Dividend income is recognised when the right to receive payment is established.

Net gains or losses on the disposal of investments (representing the difference between net proceeds and purchase cost) are credited or charged to the income and expenditure account as and when realised. Unrealised gains and losses represent the difference between the fair value of investments at the statement of financial position date and their purchase price or previous valuation. Unrealised gains and losses are recognised in the income and expenditure account.

The transfer to the investment reserve represents the difference (net of tax) between the actual investment income for the year and the investment return allocated to the technical account – general business.

Allocation of investment return

An allocation is made from the non-technical account to the technical account – general business in respect of the longer-term investment return on the total investment portfolio, since these investments relate wholly to the technical provisions and the Members' funds held for mutually insured risks.

Claims outstanding

The Association underwrites professional liability risks on a 'claims made' basis. The provision for claims outstanding in the financial statements comprises the Managers' estimate of the ultimate outcome of all reported claims based on current information, plus their forecast of the ultimate cost of claims incurred but not enough reported (IBNER). The provision also includes an allowance for future claims handling costs.

The Association reserves individual claims notified on a 'worst likely outcome' basis. Estimates for the cost of claims are made by legally experienced claims handlers who base their estimates on the information available about the individual claim and experience of similar cases. Where it is not yet possible to make an assessment of the likely outcome of a claim, a statistically derived reserve is applied based on the development of similar notifications in earlier policy years.

The IBNER provision for claims within the Association's retention is determined by the Managers based on standard actuarial projection techniques supported by stochastic modelling. The model uses historical information on claims development, adjusted for inflation and other variables, to project the ultimate cost of claims. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims in more recent years. The confidence levels selected for setting IBNER reserves reflect the Association's risk tolerance.

The provision for outstanding claims is based on information available at the statement of financial position date. The majority of claims are settled only after extensive investigation and negotiation, which can take a number of years to complete. Accordingly, the ultimate cost of such claims cannot be known with certainty at the statement of financial position date. Subsequent information and events may result in the ultimate liability being greater or less than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business in later years. The provision for outstanding claims is not discounted.

At each reporting date the Association performs a liability adequacy test on its insurance liabilities to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense to the profit and loss account by recognising an additional liability for claims provisions.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amount that the Association will ultimately pay for such claims. Estimates are made of the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNER is generally subject to a greater degree of uncertainty than that for reported claims. Additional analysis has been carried out in regards to the uncertainty around cladding claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assume that past trends can be used to project future developments.

1 Accounting policies

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition. Functional and Presentational currency is both in sterling as the majority of all transactions entered into by the Association are denominated in sterling.

Investments

The Association has chosen to apply the recognition and measurement provision of IAS39 and the disclosure requirements of FRS102 in respect of financial investments.

The Association classifies its investments as financial assets at fair value through profit or loss. As a result, gains and losses are taken to the income and expenditure account, which reflects management of the portfolio on a fair value basis. Fair value of investments traded in active markets is measured at bid price.

Acquisition costs

Acquisition costs represent underwriting management costs, renewal of existing Members, negotiation with potential Members and the processing of documentation. As premiums are fully earned in the year, acquisition costs are not deferred.

Critical accounting judgements and estimation uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

2 Calls and premiums

	2020 £	2019 £
Advance calls and premiums	**10,671,611**	9,921,436
Returns of call – 2010/11	**–**	(1,580,977)

All business is written in the UK.

3 Technical provisions

Net claims movement

	2020 £	2019 £
Net provision at beginning of year	**28,095,483**	29,666,501
Net current year provision	**4,719,081**	6,672,049
Net claims paid in year	**(1,882,893)**	(2,226,748)
Net movement in prior years' claims provisions	**10,186,388**	(6,669,119)
Claims expenses	**396,187**	652,800
	41,514,246	28,095,483

Net movement in prior years' claims provisions

Included within the net change in provision for claims of £13,418,763 is a charge of £10,186,388 (2019 – credit of £6,669,119) relating to prior years. The balance is made up as follows:

	2020 £	2019 £
Net provision at beginning of year	**28,095,483**	29,666,501
Net payments during the year in respect of these provisions	**(1,467,948)**	(1,566,812)
Net provision carried forward in respect of claims provided for at the end of the previous year	**(36,813,923)**	(21,430,570)
Movement in prior years' claims provision	**(10,186,388)**	6,669,119

Development claim tables

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Association's estimate of total claims outstanding for each policy year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

Insurance claims – gross

Estimate of ultimate claims cost attributable to the policy year.

	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
End of reporting year	8,980,463	5,000,000	4,280,000	4,280,000	4,662,000	5,227,000	5,199,000	7,529,000	6,672,049	4,719,081
One year later	8,980,463	5,000,000	4,280,000	4,280,000	4,662,000	3,542,400	7,309,200	7,461,140	7,517,057	
Two years later	8,980,463	6,000,000	4,280,000	4,280,000	7,003,300	2,697,400	4,239,125	18,405,867		
Three years later	2,705,610	4,182,227	3,335,462	3,220,600	7,033,300	3,202,203	2,645,876			
Four years later	2,608,461	7,305,725	3,379,000	2,016,600	3,162,407	3,043,520				
Five years later	3,209,393	8,739,719	2,114,000	3,001,567	2,839,122					
Six years later	3,967,000	4,559,800	2,134,680	3,056,378						
Seven years later	3,935,000	4,368,662	2,354,724							
Eight years later	3,769,481	4,218,694								
Nine years later	3,769,481									
Current estimate of ultimate claims	3,769,481	4,218,694	2,354,724	3,056,378	2,839,122	3,043,520	2,645,876	18,405,867	7,517,057	4,719,081
Cumulative payments to date	3,769,481	4,218,694	1,649,376	1,573,132	1,831,196	1,470,038	937,152	1,160,859	147,781	18,758
Liability recognised at the end of the year	–	–	705,348	1,483,246	1,007,926	1,573,482	1,708,724	17,245,008	7,369,276	4,700,323
Total liability relating to the last ten policy years										35,793,333
Other claims liabilities										5,870,912
Total reserve included in the statement of financial position										**41,664,245**

Insurance claims – net

Estimate of ultimate claims cost attributable to the policy year.

	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
End of reporting year	4,000,000	4,000,000	4,280,000	4,280,000	4,662,000	100,000	1,460,141	7,529,000	6,672,049	4,719,081
One year later	4,000,000	4,000,000	4,280,000	4,280,000	4,662,000	100,000	3,566,390	7,461,140	7,367,058	
Two years later	4,000,000	4,000,000	4,280,000	4,280,000	4,700,000	(175,000)	496,315	18,405,867		
Three years later	2,395,538	3,879,494	3,335,462	3,220,600	4,059,000	329,803	(1,096,934)			
Four years later	2,298,389	4,000,000	3,379,000	2,016,600	188,107	171,120				
Five years later	2,661,939	3,046,959	2,114,000	3,001,567	(135,178)					
Six years later	3,419,546	(252,041)	2,134,680	3,056,378						
Seven years later	3,387,546	(443,179)	2,354,724							
Eight years later	3,222,027	(593,147)								
Nine years later	3,222,027									
Current estimate of ultimate claims	3,222,027	(593,147)	2,354,724	3,056,378	(135,178)	171,120	(1,096,934)	18,405,867	7,367,058	4,719,081
Cumulative payments to date	3,222,027	(593,147)	1,649,376	1,573,132	(1,143,104)	(1,402,362)	(2,805,658)	1,160,859	147,781	18,758
Liability recognised at the end of the year	–	–	705,348	1,483,246	1,007,926	1,573,482	1,708,724	17,245,008	7,219,277	4,700,323
Total liability relating to the last ten policy years										35,643,334
Other claims liabilities										5,870,912
Total reserve included in the statement of financial position										**41,514,246**

The negative figure for the estimate of ultimate costs attributable to 2011/12, 2014/15 and 2016/17 is due to the overall gain made from a commuted reinsurance contract.

4	Net operating expenses	2020 £	2019 £
	Acquisition costs	**512,770**	571,200
	Administrative expenses	**4,734,288**	4,001,891
		5,247,058	4,573,091

Included in administrative expenses are:

i) Risk management fees of £770,000 (2019 – £760,000) payable to the Managers in respect of the conduct of the Association's risk management programme.

ii) Directors' remuneration of £154,115 (2019 – £152,393).

iii) Auditor's remuneration of £44,000 (2019 – £40,000). In respect of taxation services, PKF Littlejohn LLP were paid £4,020 (2019 – £3,780).

The Association has no employees. Management services are provided by Tindall Riley & Co Limited (trading as Wren Managers).

5	Investment income	2020 £	2019 £
	Income from fixed interest investments	**744**	763,087
	Dividends receivable from equities	**–**	477,882
	Bank and other interest	**64,321**	–
	(Loss)/gain on the realisation of investments	**(5,781)**	6,235,684
	Investment income	**59,284**	7,476,653

During the prior year the Association's investment manager was changed from Sarasin to Mercer. This resulted in the liquidation of the investment portfolio with Sarasin and the realisation of all profits on the investment portfolio with Sarasin. The proceeds of the sale were then reinvested with Mercer.

6	Investment return	2020 £	2019 £
	Allocated investment return	**2,380,375**	2,127,814

Investment income is allocated to the technical account general business on the basis of longer-term rates of investment return. The longer-term return is based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The return is calculated by applying these rates to the investible assets held during the period on a monthly basis. The following average rates have been used:

	2020	2019
Bonds	**1.55%**	1.50%
Corporate bonds	**2.25%**	2.25%
Equities	**6.03%**	6.00%

A transfer of £1,330,709 has been made from the investment reserve equivalent to the deficit of actual return against the longer-term return for the year (net of tax) during the current year. During the prior year a transfer of £1,094,184 has been made to the investment reserve equivalent to the surplus of actual return against the longer-term return for the year (net of tax) during the current year.

Ten-year comparison of allocated return with actual returns	2020 £	2019 £
Net investment income since 1 July 2010 (2009)	**22,815,696**	26,191,177
Allocated return since 1 July 2010 (2009)	**18,936,909**	18,684,347
Surplus of actual return above allocated return	**3,878,787**	7,506,830

7 Taxation

By virtue of its mutual status the Association is not liable to tax on its insurance operations. It is liable to tax on its income and net gains from investments.

Analysis of charge in period	2020 £	2019 £
Total tax charge	**140,143**	559,168

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of corporation tax in the UK of 19% (2019 – 19%). The differences are explained below:

	2020 £	2019 £
Net (deficit)/surplus before tax	**(10,591,171)**	5,035,991
(Deficit)/surplus on ordinary activities multiplied by standard rate of corporation tax in the UK	**(2,012,323)**	956,838
Effects of:		
Non-taxable mutual insurance operations	**2,152,466**	(306,872)
UK dividends not taxable	–	(90,798)
UK Corporation tax – see above	**140,143**	559,168

8 Investments

Investments comprise fixed interest investments (UK government securities), corporate bonds, equities and deposits with credit institutions. All fixed interest investments and equities are listed.

	Deposits with credit institutions £	Corporate bond investments £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	5,053	9,003,563	15,743	1,837,241	10,861,600
Sale of investments	(1,847,910)	(224,423)	(7,325,093)	(1,395,815)	(10,793,241)
Realised gains/(losses)	4,609	(4,565)	83,274	(89,099)	(5,781)
Net portfolio investment	(1,838,248)	8,774,575	(7,226,076)	352,327	62,578
Unrealised gains/(losses)	1,953	741,080	311,450	(377,826)	676,657
Change in value of portfolio	(1,836,295)	9,515,655	(6,914,626)	(25,499)	739,235
Market value at 1 July 2019	3,760,855	16,050,401	29,512,694	27,259,657	76,583,607
Market value at 30 June 2020	**1,924,560**	**25,566,056**	**22,598,068**	**27,234,158**	**77,322,842**
Cost at 1 July 2019	3,759,019	15,853,928	29,409,707	26,423,663	75,446,317
Cost at 30 June 2020	1,920,771	24,628,503	22,183,631	26,775,990	75,508,895

9 Risk Management

The Association is governed by a Board comprising a non-executive Chairman, 12 non-executive directors and two executive directors, who are also directors of Tindall Riley & Co Limited ('TRC'), trading as Wren Managers ('the Managers'). There are four sub-committees of the Board: the Audit Group, the Remuneration Group, the Nomination Sub-Committee and the Investment Strategy Group.

The Audit Group is responsible for reviewing the Association's annual Report and Financial Statements and the Solvency and Financial Condition Report (SFCR). The Audit Group receives regular reports from the Association's internal and external auditors and is responsible for approving the audit plan for each year, and for managing the relationship with the external auditors.

The Remuneration Group is responsible for making recommendations to the Board on remuneration of the Managers and the directors.

The Nomination Sub-Committee consists of the Chairman of the Association, two elected Member directors and one of the Manager directors. The Sub-Committee meets at least twice a year and is responsible for making recommendations to the Board in respect of suitable candidates for appointment/reappointment as directors of the Association, the performance of directors retiring by rotation and of the Board as a whole, and the appointment and retirement of the Chairman.

The Investment Strategy Group consists of the Chairman of the Association and three non-executive directors of the Association. The Group meets at least once a year, and monitors the ongoing performance of the Association's investments and its overall strategic asset allocation. It is also responsible for undertaking a periodic review of the Association's wider investment strategy, taking into account the Association's economic capital benchmark, technical provisions, risk appetite and target return, and for monitoring the performance of the Association's investment managers.

Each Member Practice is entitled to nominate one of its partners or directors to sit on the Association's Committee. Members of the Committee meet twice each year. The first meeting is the Members' Forum, to which Representative Members are also invited. This is held in conjunction with the Association's Annual General Meeting in March. The second is the Committee Meeting in September. All Member directors of the Association are also members of the Committee. Practices represented on the Association's Board are entitled to nominate a second Committee Representative should they wish to do so.

At each meeting, reports are given on major decisions made by the Board. The Committee Meeting and Members' Forum provide an opportunity to exchange views concerning matters relating to the running of the Association as well as on matters of general commercial interest.

The Association is managed on a day-to-day basis by the Managers, TRC, which is a private company owned by its directors and staff.

The Association has in place a robust risk management framework that is the responsibility of the Board. The Risk Register is one of the key elements of this framework. The Register sets out in detail the risks faced by the Association and the internal controls that operate to mitigate those risks. It is reviewed and updated every six months.

The Association is focussed on identification and management of potential risks. The key areas of risks to the Association are set out below:

- **Underwriting risk** – incorporating premium and reserving risk
- **Market risk** – incorporating interest rate risk, equity risk, spread risk and currency risk
- **Counterparty risk** – being the risk that a counterparty is unable to pay amounts in full when due
- **Operational risk** – being the risk of failure of internal processes or controls

In order to manage these risks, the Association has continued to develop and review the internal and external governance frameworks and the operational effectiveness of the internal controls environment through the Own Risk and Solvency Assessment (ORSA) process.

The Board monitors the development and operation of the risk management framework through the establishment of Risk Appetite Statements that set the amount of risk exposure that is acceptable and the expectation of key control performance. These are given further clarity through policies and procedures, including controls, which are then independently assessed and tested by the Risk, Compliance and Internal Audit functions.

The Association manages the risks relating to the operations of the Association through the Risk Register, which analyses exposures by degree and magnitude of risk. There have been no changes in the methods or assumptions used to calculate these risks. The Association uses a 5% movement (0.5% interest rates) as a reasonable benchmark to measure the impact of market risk.

9 Risk Management (continued)

9.1 Underwriting risk

The Association adopts a conservative approach to underwriting, characterised by selectivity of membership and prudent rating, allied to commercial awareness.

The terms of cover provided by the Association for professional indemnity risks are fixed by the Rules and therefore individual underwriters have no discretion to vary terms or limits of cover.

There are detailed procedures, documented in the Wren Procedures Manual, for the selection of new Members, which reinforce the risk tolerances in terms of the types of architectural practices that the Association wishes to attract, and their size, type and nature of business undertaken. This maintains the appropriate mix and keeps the balance right. There are also procedures for renewing Members.

Monitoring of compliance with the risk tolerances within underwriting is undertaken by the Senior Underwriting Director, the other directors of Wren Managers and the Board of the Association.

Due to the nature of the Association's business, insurance risk is wholly concentrated on professional indemnity risks. The business is all written in the UK and the Association has a de minimis exposure to claims liabilities in currencies other than Sterling.

Reinsurance

The excess of loss programme reduces the impact of individual large losses on the Association. The Association retains the first £3m of every claim (the Association's retention), above which the market reinsurance arrangements respond up to the £20m maximum limit of cover. These risk tolerances are set by the Board.

Claim reserves

The Association's risk appetite in respect of claims reserves is low, characterised by prudent estimation of individual claims estimating (on a 'worst likely outcome basis') and IBNER reserves set at an appropriate level of confidence above the best estimate.

While there are no formal 'targets' for confidence levels, the usual pattern is for the most recent years to be reserved at a higher level, while more developed years may be reserved at lower levels. These reserving percentiles are monitored each quarter and in particular at each year end and where existing reserves fall short of the level acceptable to the Board, additional IBNER provisions are made.

Prudence is monitored over time by measuring the aggregate surplus of actual technical provisions against the average – this figure should be more or less constant over time. Prudence is also monitored by analysing the release of redundancy from technical provisions in respect of claims from prior years. Any significant variation in the figure year on year is investigated.

The adequacy of reserves is monitored by senior management quarterly and by the directors of Wren Managers, the Audit Group and the Board of the Association at each year end, when a formal report is prepared by the Actuarial Department, setting out the reserves for each policy year and the percentage of confidence for each policy year and an explanation as to how these have moved since the last formal review.

Sensitivity

The Association carries out sensitivity testing on its claim reserves. The results of sensitivity testing are set out below, showing the impact on surplus/deficit before tax, gross and net of reinsurance, and capital and reserves. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

Increase in loss ratio by 5 percentage points	2020 £	2019 £
Gross	**533,581**	496,071
Net	**463,734**	341,502

A 5 percent decrease in loss ratios would have an equal and opposite effect.

9 Risk Management (continued)

9.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and equity price changes. Market risk arises due to fluctuations in both the value of assets and liabilities.

The investment strategy, which is reviewed periodically, is set by the Board upon recommendation from the Investment Strategy Group and with the assistance of external investment consultants where appropriate. The strategy reflects the risk appetite of the Association and is designed to maximise return whilst holding a risk level deemed acceptable. The policy allows the investment managers to invest a proportion of the portfolio in assets which carry a greater risk but potentially higher return, such as equities, with the majority in investments such as government bonds, corporate bonds and cash. The investment strategy is managed on a fiduciary management model.

The asset allocation of the investment portfolio is monitored by the Managers. Where an asset class exceeds its permitted range, the investment managers are authorised to carry out a rebalancing exercise, in order to restore the allocation to the correct position.

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

The Association uses a number of sensitivity management tools to understand volatility of surpluses/deficits. The table below shows the effects of a 0.5% increase or decrease in interest on earnings from debt securities:

	2020 £	2019 £
0.5% increase in interest rates	**24,366**	24,511
0.5% decrease in interest rates	**(24,366)**	(24,511)

Investment price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equities was 35% (2019 – 36%) of the investment portfolio. The value of the equity holding at the year end amounted to £27.0m (2019 – £27.0m).

The table below shows the anticipated change in investment market values from a 5% increase or decrease in underlying prices:

	2020 £	2019 £
5% increase in equity price	**1,361,708**	1,362,983
5% decrease in equity price	**(1,361,708)**	(1,362,983)
5% increase in corporate bond price	**1,278,303**	802,520
5% decrease in corporate bond price	**(1,278,303)**	(802,520)
5% increase in fixed interest price	**1,129,903**	1,475,635
5% decrease in fixed interest price	**(1,129,903)**	(1,475,635)

The table above demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. It should be noted that these sensitivities are non-linear, and larger or smaller impacts should not be extrapolated or interpolated from these results. Management actions could include selling investments, changing investment portfolio allocation and taking other protective action. In addition, the financial position of the Association may vary at the time that any actual market movement occurs.

9 Risk Management (continued)

9.3 Counterparty risks

9.3.1 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Association.

The key areas where the Association is exposed to credit risk are:

- Amount recoverable from reinsurance contracts
- Amounts due from Members
- Counterparty risk with respect to cash and investments

Amounts recoverable on reinsurance contracts

The Association is exposed to credit risk from a counterparty failing to comply with its obligations under a contract of reinsurance.

The excess of loss reinsurance programme is placed through Willis Re, a Lloyd's broker. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating of at least 'A-' at the time the contract is made. The reinsurance is placed with Lloyd's and company market underwriters. This is monitored by the Board.

Amounts due from Members

Amounts due from Members represents premium owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable. The Association's policy is that Members should have paid all debited calls within 30 days. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments

Following a change in investment manager during the previous financial year, the majority of the Association's investments are invested in funds managed by Mercer and are not rated by external ratings agencies. The policy allows for investment in funds with equities, fixed interest securities, corporate bonds and cash.

The average ratings of the funds are monitored by the Association's Investment Strategy Group, with assistance from Mercer. The fund credit ratings allocated by Mercer and the underlying credit ratings of the investments held within the funds are reviewed by the Group to ensure that materially all investments are at least rated as investment grade. The Group also ensures that Mercer monitors the underlying investments to limit the risk of default.

The remaining financial assets with no rating relate to Member and other debtors amounting to £104,977 (2019 – £61,145).

The following tables provide information regarding credit risk exposure for financial assets with external credit ratings.

	2020 £	2019 £
Corporate bond investments	**25,566,056**	16,050,401
Fixed interest investments	**22,598,068**	29,512,694
Equity investments	**27,234,158**	27,259,657
Reinsurers share of technical provisions	**149,999**	–
Member and other debtors	**104,977**	61,145
Deposits with credit institutions	**1,924,560**	3,760,855
Cash at bank	**3,127,837**	3,323,756
Total financial assets bearing risk	**80,705,655**	79,968,508

An analysis of this exposure by credit rating is shown below		
AAA	–	–
AA	–	3,323,756
A	**3,277,837**	–
BBB+ and below	–	–
No rating	**77,427,819**	76,644,752
Total financial assets bearing risk	**80,705,655**	79,968,508

The unrated exposures relates principally to five funds that are invested with Mercer.

9 Risk Management (continued)

9.3.2 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Association has adopted an investment policy which requires the maintenance of significant holdings in cash funds and short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short term cash needs are monitored to ensure the most efficient investment of cash balances.

The following table provides a maturity analysis of the Association's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

At 30 June 2020	Short term assets £	Within 1 year £	1–2 years £	2–5 years £	Over 5 years £	Total £
Quoted shares and variable yield securities	27,234,158	–	–	–	–	27,234,158
Debt securities and other fixed income securities	48,164,124	–	–	–	–	48,164,124
Deposits with credit institutions	1,924,560	–	–	–	–	1,924,560
Reinsurers' share of outstanding claims	–	–	–	37,660	112,339	149,999
Direct insurance operations – Members	104,977	–	–	–	–	104,977
Cash at bank	3,127,837	–	–	–	–	3,127,837
Total assets	**80,555,656**	**–**	**–**	**37,660**	**112,339**	**80,705,655**

At 30 June 2019						
Quoted shares and variable yield securities	27,259,657	–	–	–	–	27,259,657
Debt securities and other fixed income securities	45,563,095	–	–	–	–	45,563,095
Deposits with credit institutions	3,760,855	–	–	–	–	3,760,855
Direct insurance operations – Members	61,145	–	–	–	–	61,145
Cash at bank	3,323,756	–	–	–	–	3,323,756
Accrued Interest	11,727	–	–	–	–	11,727
Total assets	**79,980,235**	**–**	**–**	**–**	**–**	**79,980,235**

The following is an analysis of the estimated timings of net cash flows by financial liability. The timing of cash flows are based on current estimates and historic trends. The actual timings of cash flows may be materially different from those disclosed below:

At 30 June 2020						
Gross outstanding claims	–	585,280	2,986,325	21,723,547	16,369,093	41,664,245
Direct insurance operations – Members	–	20,071	–	–	–	20,071
Reinsurance operations	326,006	–	–	–	–	326,006
Taxation	–	61,132	–	–	–	61,132
Other creditors	430,738	–	–	–	–	430,738
Total liabilities	**756,744**	**666,483**	**2,986,325**	**21,723,547**	**16,369,093**	**42,502,192**

At 30 June 2019						
Gross outstanding claims	–	504,998	2,813,923	14,659,019	10,117,543	28,095,483
Direct insurance operations – Members	–	1,660,617	–	–	–	1,660,617
Reinsurance operations	327,990	–	–	–	–	327,990
Taxation	–	545,616	–	–	–	545,616
Other creditors	415,752	–	–	–	–	415,752
Total liabilities	**743,742**	**2,711,231**	**2,813,923**	**14,659,019**	**10,117,543**	**31,045,458**

9 Risk Management (continued)

9.4 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association documents all key processes and controls in a procedures manual. This manual is embedded into the organisation, updated on a continuous basis and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through the internal audit function which is directed and reviewed by the Managers and the Audit Group. A staff handbook contains all key employment policies that have also been documented.

9.5 Limitation of the sensitivity analyses

The sensitivity analyses in section 9.1, 9.2 and 9.3 above shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

9.6 Capital risk management

The Association maintains an efficient capital structure, consistent with the Association's risk profile. The Association's capital is represented by net assets. The Association's objective is to maintain sufficient capital to ensure it is able to continue as a going concern and meet regulatory requirements.

The Solvency II regime has been effective from 1 January 2016. The Association is subject to these regulations. The Association is required to meet a Solvency Capital Requirement (SCR) which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Association's risk profile.

The Association is regulated by the PRA and the Financial Conduct Authority (FCA). The Board's policy is to develop and maintain a strong and flexible capital base in order to meet the capital requirements of the PRA. The SCR is monitored and updated annually, although if anything significant (such as a large claim or investment movement) occurs in the year, it is updated immediately. Other capital measures used by the Board include an Economic Capital Benchmark, which is also monitored against actual capital resources.

In order to monitor capital requirements, the Board reviews the capital position on a quarterly basis and the Managers review performance monthly.

Throughout the period the Association complied with the regulators' capital requirements. At 30 June 2020 the Association's Solvency II own funds exceeded the SCR with a solvency ratio of 1.6. In accordance with the PRA rulebook, the Association has taken benefit of the audit exemption of the SCR and SFCR and therefore the current year SCR and SFCR are unaudited.

9.7 Fair value hierarchy

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Association applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by the Managers. The Association has minimal exposure to financial assets or liabilities which are valued at other than quoted prices in an active market.

9 Risk Management (continued)

9.7 Fair value hierarchy (continued)

The classification criteria and their application to the group can be summarised as follows:

- The unadjusted quoted price in an active market for identical assets or liabilities that the Association can access at the measurement date (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly (Level 2)
- Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability (Level 3)

Group	Deposits with credit institutions 2020 £	Deposits with credit institutions 2019 £	Corporate bonds 2020 £	Corporate bonds 2019 £	Fixed interest 2020 £	Fixed interest 2019 £	Equity and other investments 2020 £	Equity and other investments 2019 £
Level 1	**1,924,560**	3,760,855	**–**	–	**–**	–	**27,234,158**	27,259,657
Level 2	**–**	–	**25,566,056**	16,050,401	**22,598,068**	29,512,694	**–**	–
Level 3	**–**	–	**–**	–	**–**	–	**–**	–
	1,924,560	3,760,855	**25,566,056**	16,050,401	**22,598,068**	29,512,694	**27,234,158**	27,259,657

10 Related parties transactions

The Board, comprising the Chairman, up to 12 representatives of the membership of the Association and two Manager nominees, is appointed to oversee the management of the Association on behalf of the Members. However, because of the mutual nature of the Association, all Members, being both insurer and insured, are in effect related parties.

The Association, which is limited by guarantee, has no share capital and is controlled by the Members, who are also its insureds. All Members enter into insurance contracts negotiated with the Association's managers on arm's length terms. These transactions are therefore with related parties and are the only transactions between the Association and its Members.

The aggregate of transactions with Members is disclosed in the financial statements and, in the opinion of the directors, there are no individual transactions, or connected transactions, the disclosure of which is necessary for an understanding of the financial statements.

Tindall Riley & Co Limited (trading as Wren Managers) manages the Association and received £5,050,000 (2019 – £4,840,000) in respect of management fees and risk management services.

11 Subsequent events

There are no subsequent events which require adjustment or disclosure in the financial statements.

DIRECTORS

The Wren Insurance Association Limited, Limited by Guarantee

Board of Directors

A D Stanford (Chairman)
J M Carpenter
J A Greaves
J J Hall
D Hills
D Lawrence
S J Peat
J T Pickard
A Poole
J P Rich
I M Rudolph
W J Ryan
J N E Thompson
G Tidmarsh
H O Wells

Registered Office

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Companies House Number 2054592

Managers

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Trading as:
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Auditors

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2020

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2020