



# Solvency & Financial Condition Report

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## INTRODUCTION AND SUMMARY

The new co-ordinated EU regulated regime for Insurance Companies, Solvency II, came into effect on 1 January 2016. The new regime requires new reporting and public disclosures to be put in place by insurers, some of which will be required to be published on the Company's website. This is the third Solvency Financial Conditions Report (SFCR) for the HSF health plan based on the financial position as at 31 December 2018.

This report covers the Business and Performance of the Company, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. The ultimate Administration Body that has the responsibility for all of these matters is the Company's Board of Directors, with the help of various governance and control functions that it has in place to monitor and manage the business.

The Company's financial year runs to 31 December each year and it reports its results in GBP sterling.

HSF health plan has three main objectives:-

1. Provide policyholders with a wide range of health benefits that represents excellent value for money. In broad terms 95% of premiums received are paid out as claims and to cover management/administration costs - leaving a relatively low profit margin.
2. Generate long-term investment growth from its investment portfolio.
3. Pay most profits and investment surplus to its parent charity company, The Hospital Saturday Fund, by way of charitable Gift Aid payments. In turn the charity upholds the aims of The Hospital Saturday Fund's founders and its own objectives by donations to medical charities, hospitals, hospices, and individuals with medical needs or medical training needs.

The profits from 1 above are fairly consistent whilst those from 2 above are inevitably quite variable. In combination this results in overall profitability in most years as demonstrated by HSF health plan's financial performance over the past 20 years. Steady modest growth is sought/achieved through the considerable efforts of HSF health plan staff, management and board - success is not a given. This approach is particularly important giving the limited fund raising ability of HSF health plan, reflecting its position as a subsidiary of a registered charity.

HSF health plan has been in existence for over 140 years and is determined to continue its insurance and charitable activities far into the future. HSF health Plan behaves ethically and treats policyholders, staff, and suppliers fairly. The business seeks to operate pragmatically, responsively, and in a controlled manner. Being responsive to customer's means HSF health plan can adjust its product offerings to what is wanted. Being responsive to staff means improvements can be identified/made and problems/risks dealt with rather than be hidden.

HSF health plan's investment portfolio seeks long-term growth through diversification focussing mainly on equities. Some might classify this as a medium risk approach in the short term and a low risk approach when looking many years hence.

### Performance

The Directors were very satisfied with the results in 2018 and all 2018 profits were gift aided to The Hospital Saturday Fund in the 2018 financial year. The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2019 and were signed on its behalf by the Chairman, Mr John Randel.

## A - BUSINESS & PERFORMANCE

### A.1 Business

HSF health plan Ltd is the wholly owned and trading subsidiary of The Hospital Saturday Fund, an independent charity registered (number 1123381) with the Charity Commission. The Hospital Saturday Fund is a Company Limited by Guarantee in England No 6039284. Both companies have their registered office at 24 Upper Ground London SE1 9PD.

In the UK HSF health plan Limited is a Company Limited by Guarantee in England No 30869 and is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority. The firm's reference number for the FCA is 202182. The company, as a category 5 firm, has no named supervisor.

Contact details for the PRA and the FCA can be found on their respective websites:

[www.bankofengland.co.uk/pru](http://www.bankofengland.co.uk/pru)

[www.fca.org.uk](http://www.fca.org.uk)

In Ireland HSF health plan Limited is registered as Branch No 904935 by the Companies Registration Office and is registered with the Department of Health and Children and the Health Insurance Authority in Ireland, as per Section 14 of the Health Insurance Act 1994. HSF health plan is also authorised to "Passport" into Ireland on a Freedom of Establishment basis.

Contact details for the Health Insurance Authority in Ireland, can be found on their website:

<https://www.hia.ie/>

The HSF health plan Limited is engaged in only one class of business, a range of health cash plan schemes, all of which arises in the United Kingdom and Ireland. The original Hospital Saturday Fund was founded in 1873.

Advisers	Kerman & Co LLP
Solicitors	200 Strand
	London
	WC2R 1DJ

Ronan Daly Jermyn  
2 Park Place,  
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External Auditors'	haysmacintyre,
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Investment Managers	Sarasin & Partners LLP
	100 St Paul's Churchyard,
	London, EC4M 8BU

UBS AG  
1 Finsbury Avenue,  
London, EC2M 2AN

Investec Wealth & Investments  
The Harcourt Building, Harcourt Street,  
Dublin 2, D02 F721  
Ireland

## A.2 Underwriting Performance

The total premiums (less Insurance Premium Tax) for the year were £30,770,984 (2017: £30,232,484). Benefits payable (including Personal Accident premiums, helplines and Perk Box) for the year were £22,716,381 (2017: £22,095,826) and represented 73.8% (2017: 73.1%) of premium income.

There was an increase in new business against prior year of 0.3%, though overall gross premium income increased by 2.16%. A total of 76 new companies launched HSF health plan schemes for their employees, which has decreased from 90 in 2017. The number of policyholders at the year-end was 88,143 (2017: 87,900).

## A.3 Investment Performance

The Company holds a range of financial investments including both Sterling and Euro cash deposits and stock market investments. The Company's Directors are careful to manage the Company's exposure to any one counterparty and ensure the nature of the financial investments are appropriate to the Company's activities, objectives and the maintenance of the Company's PRA solvency requirement. The Company's investments decreased in value from £15,743,897 to £14,972,221 comprising net additions of £55,486 (2017 net disposals of: £1,245,257) and unrealised losses of £827,162 (2017 gains of: £733,969). The companies' investment holdings have generated income of £508,964 (2017: £414,847) in interest and dividend payments. The fund management fees per annum range from 0.008% to 0.01% of funds under management.

## A.4 Performance of Other Activities

In considering the major service suppliers to HSF health plan the following specific comments apply to certain suppliers:-

- The accident benefit coverage section of the health cash plan operated by HSF health plan is provided by Chubb European Group Ltd in their capacity as co-insurer of HSF health plan's policyholders. As a co-insurer Chubb assesses and pays the claims it receives. HSF health plan monitors the performance of Chubb to ensure that it is providing a good service to its policyholders, and may from time to time appoint an alternative accident insurer to provide these benefits. The accident cover is a minor component of the health cash plan offering.
- Medical Solutions UK supplies the various telephone helplines offered as part of the health cash plan. The most material of these is the GP Advice Line. Medical Solutions is not involved in claims. The telephone helplines are a peripheral part of the health cash plan offering.
- HSF health plan purchases fund management services from two external investment managers. These are currently UBS and Sarasin's with appointment reviews being conducted every five years, and performance reviews conducted quarterly. These fund management activities are not material to the provision of the health cash plan product to policyholders, but does influence the capital resources available and the level of charitable donations to HSF's parent company. A third fund manager, Investec Wealth & Investments were appointed in late 2018 although no funds have been transferred to them during the year. Investec Wealth & Investments have been appointed as part of HSF health plan's Brexit contingency plans as they are based in Dunlin, Ireland.
- HSF health plan also donated £3.3m (2017: £2.7m) to its parent charity the Hospital Saturday Fund.

## A.5 Any Other Information – Mission Statement

### HSF health plan Mission Statement

***Our Mission is: To be recognised as the number one Health Cash Plan provider in the UK and Ireland by offering the best value range of schemes and ensuring a first class service for every policyholder***

## **B - SYSTEM OF GOVERNANCE**

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

The usual board structure of HSF health plan Ltd is:-

- Three executive directors employed by HSF health plan including the Chief Executive and the Managing Director. These Executive Directors have day-to-day management responsibility for HSF health plan.
- Three independent Non-Executive Directors.
- Five Non-Executive Directors nominated by The Hospital Saturday Fund who are also Directors/Trustees of The Hospital Saturday Fund. These Non-Executive Directors are chosen from the seven Directors/Trustees of The Hospital Saturday Fund. The Directors/Trustees of The Hospital Saturday Fund are in turn elected from amongst the members of the Association. The Chairman of the Board is chosen from these Directors.

The board has four subcommittees each comprising of four to six Directors of HSF health plan (always a majority of Non-Executive Directors) and attended by invitation by the chair of the committee, an HSF health plan senior manager with responsibilities in the committee's area of focus. These report to the main Board with a focus of interest as indicated by their names i.e.: -

- Sales and Marketing
- Audit & Finance
- Human Resources and Remuneration (to include Operations)
- Risk & Compliance

In Solvency II terms the Board and Committees are the “administrative, management and supervisory body” (AMSB).

#### **Board of Directors**

The Executive Directors are:-

- Mr Paul Jackson (Chief Executive)
- Mr Paul Clare (Managing Director)
- Mrs Sharon Phelan (Director of Operations UK and Ireland)

The Non-Executive are:-

- Mrs J L Dalton LLB (Hons)
- Mr M Davies
- Mr J Diamond (from 18 June 2018)
- Mr N Finlayson FCA DChA
- Mr J Greenwood
- Mr J Randel – Chairman
- Mrs L Richards-Cole ACII
- Mr D Thomas

Mr John Randel and Mrs Lynn Richards-Cole continue to serve as Chairman and Vice Chairman respectively from November 2017. In November 2018, Mr John Randel was elected to serve a further term as Chairman and Mr Mark Davies was elected as Vice Chairmen. Two of the independent Directors, Mr Neil Finlayson and Mrs Lynn Richards-Cole continued to serve for a three-year period of service, which commenced on 1 October 2017 and a third independent Director, Mr Jonathan Diamond joined the Board in June 2018. None of them serve as Directors/Trustees of the charity company.

The Board is made up of individuals from a range of backgrounds in general insurance, finance, investment banking, legal, private sector and charity sectors. This diverse range of experience is invaluable to the Company and ensures that a strong governance structure is maintained, underpinning the business being managed efficiently.

#### **Material Transactions with Parent**

HSF health plan is structured to donate all profits made each year to its parent charity, the Hospital Saturday Fund. HSF health plan donated £3.3m (2017: £2.7m).

## Committee Membership at 31 December 2018

<b>Audit &amp; Finance (from 18 June 2018)</b>	<b>Human Resources</b>	<b>Sales and Marketing</b>	<b>Risk &amp; Compliance (from 18 June 2018)</b>
Mr N Finlayson – Chairman	Mrs J Dalton – Chairman	Mr M Davies - Chairman	Mrs L Richards-Cole - Chairman
Mr J Greenwood	Mr J Randel	Mrs L Richards Cole	Mr J Randel
Mr J Randel	Mr D Thomas	Mr J Randel	Mr M Davies
Mr P Clare (in attendance)	Mr P Clare	Mr P Clare	Mr P Clare
Mr P W Jackson (in attendance)	Mr P W Jackson	Mr J Diamond (from 18 June 2018)	Mrs S Phelan
Mr P Clare (in attendance)	Mrs S Phelan		Mr P W Jackson

### Remuneration

The Human Resources & Remuneration Committee is responsible for carrying out duties delegated to them by the Board to ensure the firm recruits and retains employees whose values are aligned to our culture and core purpose. The Committee undertakes an oversight role and give guidance to the appropriate Executive Directors and senior managers to ensure that the following areas:

- Annual review of staff salaries, bonus payments, allowances and benefits
- Being non-discriminatory – all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin.
- Terms and Conditions of Employment are reviewed when appropriate
- Health and Safety practices and regular monitoring and training;
- Induction, ongoing training and appraisals.
- Holding individual performance appraisals to identify talent at all levels in the business and enable fair and competitive pay;
- Holding interim reviews as appropriate, and instruct the Managing Director to take the necessary action.

are maintained in a satisfactory manner to ensure that the company is acting within legal and good practice regulations and guidelines:

The Human Resources & Remuneration Committee is also responsible for:

- Recommending to the Board a level of remuneration for the Chairman of the Board and Non-Executive Directors.
- Ensuring that the Service Agreement for Non-Executive Directors continues to reflect the role adequately.

### B.2 Fit and proper requirements

Directors are appointed under the “fit and proper” process adopted by the Company and in addition under the Senior Insurance Management Regime function holders are pre- approved by the PRA/FCA. The process within HSF health plan which is used to determine honesty, integrity, reputation, competence/capability and financial soundness, involves a personal declaration, credit checks, criminal record checks as well as the assessment as to whether individuals have the knowledge, skills and experience to undertake a particular role. This is reflected in the Scope of Responsibilities. “Fit and proper” is reviewed annually and there is a continuing obligation to advise the Chairman if, at any stage, individuals cannot fulfil these requirements.

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

The main activity of the Company is operator of a medical cash plan and with this business activity, comes the need to take risk. We monitor the profitability of schemes and the claims data regularly, taking action when required and deemed necessary. The scheme premiums are rated on detailed analysis of historic claims data. Under the insurers regulatory regime, we also consider and diligently monitor a wide range of other risk including market, liquidity, interest rate, insurance, operational, concentration among others, this is done by regular consideration of the ORSA (Own Risk and Solvency Assessment).

The framework adopted by HSF health plan to complete the ORSA process pulls together the work which is done on risk within the business and ensures that appropriate monitoring takes place, that appropriate reviews are conducted in line with the regulatory guidelines and the appropriate amendments made to any necessary documentation. The

ORSA is reviewed and approved by the Board on an annual basis. HSF health plan has adopted the Standard Formula as the basis for calculating its solvency capital requirement.

For the Senior Insurance Managers Regime functions of Risk Management, Internal Audit and the Actuarial Function, the company adopts an approach, which reflects the nature, scale and complexity of the business and delivers the desired outcomes.

The key purpose of preparing an ORSA is for HSF health plan to make its own assessment of the capital required to be solvent and stay in business over the next year and beyond. The minimum benchmark is the active survival of the business for at least one year with a probability of at least 99.5%. This sits alongside the statutory capital calculated in accordance with the balance sheet and standard capital requirements parameters set by the regulatory authorities for their "standard model". The required capital for HSF health plan is then the higher of the amount that HSF health plan determines or the statutory amount calculated within the "standard model". Therefore a key underlying purpose of the ORSA is to identify capital shortfalls arising from mechanistically applying the statutory solvency calculations. Conversely if HSF health plan determines that less capital than the statutory amount is more appropriate then the statutory amount will prevail i.e. under Solvency II the capital required is set at the higher of the statutory and own assessment amounts.

The indicated confidence level of a 99.5% probability of remaining solvent after one year is deemed a suitable balance for HSF health plan between taking excessive risks or holding excessive capital. This period reflects HSF health plan's three year business planning cycle with updated three year plans being prepared every year i.e. in effect a one year plan with a three year horizon. Maintaining capital well in excess of the amount determined on this basis provides significant investment freedom for HSF health plan's investment portfolio to secure real long-term growth and permit profits to be generated both from the trading activities and the investment portfolio.

#### **B.4 Internal control system**

In order to ensure the effectiveness of the firm's system of governance, HSF health plan has adopted the 'Three Lines of Defence' mode. The first line of defence is provided by front line staff and operational management. The systems, internal controls, the control environment and culture developed and implemented by these business units is crucial in anticipating and managing operational risks. The second line of defence is provided by the risk management and compliance functions. These functions provide the oversight and the tools, systems and advice necessary to support the first line in identifying, managing and monitoring risks. The third line of defence is provided by the Risk and Compliance Committee together with the Internal Audit Function. This function provides a level of independent assurance that the risk management and internal control framework is working as designed.

#### **B.5 Internal audit function**

The Internal Audit function is managed by the Compliance Manager. The function reports through normal line management to the Managing Director and has full and ready access to the Chief Executive. They also report directly to the Audit and Finance Committee regarding internal audit matters only, and have access to Non-executive Directors. When performing an audit and when evaluating and reporting the audit results, the internal audit function is not subject to influence from the Board that can impair its independence and impartiality.

#### **B.6 Actuarial function**

The actuarial function manager (i.e. Head of Finance) will like all staff in a small company such as HSF health plan have many other roles and duties, particularly preparation of accounting information. The Company is aware of the potential conflicts, as well as the advantages, from this overlap of duties. Support and oversight is provided by the Chief Executive and Managing Director. Many of the function's outputs will be checked or prepared first by others including the external auditors, the Chief Executive, the Managing Director or other Finance department personnel.

HSF health plan does not require the services of a qualified actuary given the straightforward nature of the product offering to policyholders, and risks inherent in the business. Claims expectation is derived solely from the claims experience of HSF health plan as no appropriate/relevant industry claims data is available.

As a matter of practice and policy no prior underwriting of individual risks is conducted and terms offered are usually the same for policyholders who fulfil the criteria for joining/remaining in their particular scheme. Health condition



exclusions or temporary restrictions are usually applied based on the health declaration supplied by the policyholder on joining. Premiums do not vary with age, or sex, or health.

In setting out the terms offered to policyholders HSF health plan's objectives for these are designed to:-

- Reflect the provident ethos of the organisation by generating a small surplus of premiums over claims and management costs to provide:-
  - funds to assist the capital development of the business
  - funds to allow for future benefit improvements/development
  - funds to allow charitable donations to be made to the parent charity organisation
- Provide a consistent benefit structure for the various country/distribution channel product ranges with a progressive increase in benefits for an increase in premiums regardless of age or sex or dependency situation. The level charging structures thus created naturally incorporate cross subsidies between various membership categories e.g. young and old, high-paying and low-paying, etc.
- Provide long-term good value for money.

## **B.7 Outsourcing**

The general stance of HSF health plan is not to outsource any activities, and does not therefore require an outsourcing policy. HSF health plan does however buy in skills that it does not possess. In terms of the critical/important functions/activities from a Solvency II perspective the following applies:-

- The design and pricing of insurance products - undertaken solely by HSF health plan personnel.
- The investment of assets or portfolio management - HSF health plan determines its own investment strategy, and the broad market sectors and investment ranges for fund management service providers. HSF health plan owns and manages its own head office property and its bank deposits. Other assets are managed within HSF health plan's investment policy by two external fund managers, currently Sarasin and UBS, who have freedom to select individual stocks and shares and the timing of their purchase/sale within an agreed framework.
- The claims handling process is undertaken solely by HSF health plan personnel.
- The provision of regular or constant compliance, internal audit, accounting, risk management or actuarial support is undertaken by HSF health plan personnel. However, on occasions external guidance or commissioned tasks may be requested.
- The provision of data storage - undertaken for electronic data solely by HSF health plan personnel using Company owned equipment. Paper file storage is partly undertaken in-house but with the bulk being held by an external box management company, currently Recall
- The provision of on going day-to-day systems maintenance or support is undertaken solely by HSF health plan personnel. On the rare occasions external support may be sought.

## **B.8 Any other information - Employees**

HSF health plan has approximately 75 employees to include all staff, as well as the Board of Directors. The company remains fully committed to its on-going staff training and development program. During the year the company experienced a number of successful personal development achievements by members of staff across several departments. In June 2016, the company was successful in attaining re-accreditation against the Investors in People Gold standard with an improved assessment score. The company will be re-assessed against a revised standard in June 2019.

## **C- RISK PROFILE**

### **C.1 Underwriting risk**

Underwriting Risk - standard terms apply to the great majority of business controlled by monthly monitoring of profitability and the product re-pricing facility. About 10% of existing business lapses each year so much of new business (over 90% is direct) is about replacing this. In practice numbers of policyholders are static/slightly reducing with premiums slightly growing as new joiners usually pay more than leavers assisted by the occasional price increase.

### **C.2 Market risk**

HSF business plans involve very modest business growth. Materially different levels of new business would require very different direct sales resources, and intermediary sales are very low margin/IT resource intensive (brokers often request their own benefit structures).

### **C.3 Credit risk**

There is minimal risk other than temporary exposures whilst sponsoring company's forward premiums deducted from policyholder earnings.

### **C.4 Liquidity risk**

Liquidity Risk - assets are immediately tradable apart from up to 25% held in property and hedge funds.

### **C.5 Operational risk**

The Risk and Compliance Committee monitor the Company's risk exposure in all areas including investment, operational, financial, human resources, sale and business continuity, with the Committees also monitoring their own areas of risk as well. It advises the Board on risk management and policy, while it also keeps under review the effectiveness of these areas. The Chief Risk Officer is the Executive Director accountable for enabling the efficient and effective governance of significant risks, and related opportunities, this role is the responsibility of the Managing Director. The Chief Risk Officer reports to the Risk and Compliance Committee bi-annually to assist the committee with actively monitoring the risks and ensure the controls and appropriate monitoring systems are in place, the Chief Risk Officer is also accountable to the Board of Directors.

The Company have produced various risk registers for the different parts of the business and these are kept under constant review by the various Committees and Board to manage and mitigate risks. The Risk and Compliance Committee meet regularly to review and monitor these and reports to the Board. The Board are satisfied with the risk management policies and procedures in place.

### **C.6 Other material risk**

Regulatory Risk - all sales are on a non-advisory basis with firm training and monitoring to prevent policyholder advice. HSF undertakes audits, complaint monitoring, and sales staff training/monitoring to detect indications that advice might be given to policyholders

Investment Risk - broad investment ranges and categories are agreed with the external fund managers, UBS and Sarasin, to achieve a well-diversified balanced portfolio. Real assets (equities plus to a lesser extent property and hedge funds) form 50 to 80% of the holdings with cash and fixed interest making the remainder. Overall HSF applies the prudent person principle in ensuring its investments will be more than sufficient to cover its statutory capital requirements.

### **C.7 Any other information**

HSF health plan adopts a medium to low strategic risk appetite when determining the acceptability and management approach to risk. Due allowance is made for HSF's financial strength, the cost/value of controls, and the extent to which the risk can be accepted or mitigated.

HSF health plan seeks to manage its business in a sensible, considered, and common sense manner whilst taking sufficient risks to develop the business and compete/survive successfully against other organisations. So taking risks

is necessary, but taking unnecessary or ill-judged risks in areas HSF health plan do not fully understand is not. HSF health plan will act with prudence in its business activities and approach – and even more so on matters more removed from its core health cash plan insurance product.

HSF health plan will make considered judgments, acting decisively, seeking to carefully analyse potential new initiatives in order to consider possible outcomes in relation to specified criteria. HSF health plan may seek external guidance (upon which HSF health plan will still need to make a validity judgment) where appropriate.

The business is operated in an open and ethical manner with the Board monitoring expenditure and actual/potential variances. “Treating Customers Fairly” is embedded firmly in the firms’ ethos and good treatment of customers and low level of complaints is of primary importance.

Not all HSF health plan’s risk exposures are included in the standard formula capital calculation. For example risk exposures associated with reputation, strategic or regulatory are mitigated through a combination of reliance on internal controls, monitoring of the risk management framework and future management actions. There is no exposure to pension scheme liabilities.

## **D - VALUATION FOR SOLVENCY PURPOSES**

### **D.1 Assets**

#### **Land and buildings**

The Company owns a freehold property at 24 Upper Ground, London SE1 9PD which is used for the Company’s own activities. The property was on 23 February 2018, at £2,500,000 on an open market basis by Dunsin Surveyors, Chartered Surveyors. The carrying value of the property as at 31 December 2018 if it were carried under the cost method is £493,500. At the date of the revaluation, the directors believed the property had a useful economic life of at least 50 years. The Directors have considered the value of the property at 31 December 2018 and do not consider there to be any material change in value.

#### **Investments**

The investment of assets, or portfolio management, are managed within HSF health plan’s investment policy by two external fund managers, currently Sarasin and UBS, who have freedom to select individual stocks and shares and the timing of their purchase/sale within an agreed framework.

Market value at 1 January 2018	15,743,897
Additions	3,121,002
Disposals	(3,065,516)
Unrealised gain on investments	(827,162)
Market value at 31 December 2018	14,972,221

#### **Insurance and intermediaries receivables**

Insurance and intermediaries receivable balances represent premiums owed from policyholders. As at 31 December 2018 the Company had a total of £2,345k of outstanding premiums. Outstanding premiums are valued at fair value and due to the short-term nature of the receivable; no adjustments to valuation are required. The value of insurance and intermediaries receivables in the Company’s financial statements is the same as for Solvency II.

#### **Cash and cash equivalents**

As at the reporting date, the Company had £2,184K held as cash in UK and Irish bank accounts. The UK bank accounts are all held in pounds sterling; no estimation methods, adjustments for future value or valuation judgements are required for these balances. The monies held in Irish bank account are denominated in Euro (“EU”), translated into pounds sterling at the period end for reporting purposes.

Cash and cash equivalents are valued at fair value by the relevant financial institution, and the Company receives monthly statements at the period end to confirm the balances held. There are no significant estimates or judgements used in valuing cash holdings due to the nature of the asset.

## Tangible Fixed Assets

	Furniture and Equipment £
Cost	
At 1 January 2018	1,411,231
Additions	115,683
Disposals	-
	-----
At 31 December 2018	1,526,914
	-----
Depreciation	
At 1 January 2018	843,737
Charge for year	286,177
Disposals	-
	-----
At 31 December 2018	1,129,914
	-----
Net book value	
At 31 December 2018	397,000
	=====
At 31 December 2017	567,494
	=====

The valuation used for assets within the Reports and Financial Statements we feel is in line with the defined fair value for Solvency purposes and therefore there has been no revaluation of assets for Solvency II.

## D.2 Technical provisions

At 31 December 2018, HSF health plan held a technical provision valued for Solvency II purposes of £3,673k.

The Technical provision represents at the balance sheet date the current cost of insurance liabilities and includes the following components:

- Claims provisions being claims incurred at the balance sheet date
- Premium provision being claims expected to be incurred after the balance sheet date
- Risk Margin representing the amount a third party would require in addition to the best estimates to assume the liability, calculated on a cost of capital basis.

HSF health plan technical provision is calculated using a claims paid analysis and including all policies in force and on risk at the reporting date.

The risk margin is calculated using the cost-of-capital approach prescribed by Solvency II.

The primary uncertainties relate to how future actual experience will differ from the assumptions used to calculate the technical provisions. The key assumptions are in respect of the claims experience. In order to best understand the uncertainties a robust process for setting assumption is adhered to.

The table below is set out to display the split between technical provision and risk margin.

Description	Technical Provisions per Solvency II
Technical Provisions	£3,425k
Risk Margin	£248k
<b>Total</b>	<b>£3,673k</b>

The main difference between the Solvency II and UK GAAP for the Technical Provisions is the inclusion of the Risk Margin value of £248k for Solvency II.

### D.3 Other liabilities

The other liabilities included within the Solvency II valuation are Payables (trade, not insurance) of £786K and Deferred Tax Liabilities of £127k. There are no adjustments or judgements made for valuation purposes. The valuation for Solvency II is the same as UK GAAP valuation for both other liabilities detailed above.

### D.4 Alternative methods for valuation

The valuation used by HSF health plan Ltd for assets within the Reports and Financial Statements we feel is in line with the defined fair value for Solvency purposes and therefore there has been no revaluation of assets for Solvency calculations.

## E- CAPITAL MANAGEMENT

### E.1 Own funds

The own funds management objective is to at all times maintain sufficient own funds to cover both the SCR and MCR with an appropriate excess. Regular reviews are carried out by the responsible committee at least quarterly of the eligible own funds over SCR and MCR ratios with the ultimate responsibility for this resting with HSF health plans Board of Directors. HSF health plans own funds are all tier 1 unrestricted and available to cover SCR and MCR.

HSF health plan's eligible own funds as of 31 December 2018 £18,132k.

### E.2 Solvency Capital Requirements and Minimum Capital Requirement

The Solvency Capital Requirement and Minimum Capital Requirement for the Company are set out in templates 28.01.01. HSF health plan Ltd applies the Standard Formula as the basis for calculating capital requirements having assessed and reviewed the underlying assumptions as appropriate for the firm.

	31 December 2018
Market Risk	£5,255K
Counterparty Default Risk	£544K
Health Underwriting Risk	£5,588K
Diversification	£(2,625K)
Operational Risk	£1,846K
<b>SCR</b>	<b>£10,608K</b>
<b>MCR</b>	<b>£2,652k</b>

The MCR is pre-determined within the Solvency II legislation and corresponds to an amount of eligible basic own funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk if insurance undertakings were allowed to continue their operations. The MCR is calibrated to the Value-at-Risk of the basic own funds of an insurance undertaking subject to a confidence level of 85% over a one year period. The MCR has been calculated as 25% of the SCR in accordance with article 248(1) of the Delegated Regulations 2015/35.

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

No duration-based equity risk sub-module is included in the Solvency Capital Requirement.

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

HSF health plan has fully embedded the Solvency II calculation process and is engaged with the Solvency II standard model assumptions. HSF health plan considers the standard model provides a prudent calculation of HSF health plan's capital requirements and no additional capital loadings are necessary. As a package of risk capital calculations HSF considers the Standard Model provides a sound framework to use when applying its own assessment to the risks to be valued. HSF health plan agrees that the 0.5% per annum risk of failure is an appropriate benchmark when balancing the firm failure risk against its capital resources - as is inherent in the Standard Formula.

HSF health plan monitors the ongoing appropriateness of the standard formula for HSF health plan's ORSA framework as part of its considerations each time an ORSA is being prepared. Business assumptions are challenged and agreed by relevant parties with controls put in place such as agreeing all inputs and stress tests to be conducted before the calculation takes place.

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

HSF health plan Ltd has continually complied with both the Minimum Capital Requirement and Solvency Capital Requirement throughout the reporting period.

### TEMPLATES

#### General information

Undertaking name	HSF Health Plan Ltd
Undertaking identification code	213800YV3JV2KPMIICU43
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2018
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

#### List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.17.01.02 - Non-Life Technical Provisions
- S.19.01.21 - Non-Life insurance claims
- S.23.01.01 - Own Funds
- S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

**S.02.01.02**  
**Balance sheet**

		Solvency II value
		C0010
<b>Assets</b>		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	2,847
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	15,180
R0080	Property (other than for own use)	434
R0090	Holdings in related undertakings, including participations	0
R0100	Equities	11,554
R0110	Equities - listed	8,543
R0120	Equities - unlisted	3,011
R0130	Bonds	3,193
R0140	Government Bonds	879
R0150	Corporate Bonds	2,314
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	0
R0190	Derivatives	
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	
R0270	Reinsurance recoverables from:	0
R0280	Non-life and health similar to non-life	0
R0290	Non-life excluding health	0
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding index-linked and unit-linked	0
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,345
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	2,184
R0420	Any other assets, not elsewhere shown	163
R0500	<b>Total assets</b>	<b>22,718</b>

**S.02.01.02**  
**Balance sheet**

		Solvency II value
		CC010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	3,673
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	0
R0550	<i>Risk margin</i>	0
R0560	<i>Technical provisions - health (similar to non-life)</i>	3,673
R0570	<i>TP calculated as a whole</i>	3,425
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	248
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	127
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	786
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	<b>Total liabilities</b>	<b>-4,586</b>
R1000	<b>Excess of assets over liabilities</b>	<b>18,132</b>



Premiums written

Premiums written

### Premiums, claims and expenses by country

30000

	Direct business and accepted proportional reinsurance												Accepted non proportional reinsurance				Total Non-Life obligation
	Medical expense insurance	Accident protection insurance	Mariners' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assurance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
R0100 Technical provisions calculated as a whole	3,415	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,415
R0140 Total recoverable from reinsurers (R0100) and Findex Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
R0150 Technical provisions calculated as a sum of BE and RM																	3,415
R0160 Best estimate																	3,415
R0170 Premium provisions																	3,415
R0180 Gross																	3,415
R0190 Total recoverable from reinsurers (R0180) and Findex Re after the adjustment for expected losses due to counterparty default																	0
R0200 Net best estimate of Premium Provisions																	3,415
R0210 Claims provisions																	3,415
R0220 Gross																	3,415
R0230 Total recoverable from reinsurers (R0220) and Findex Re after the adjustment for expected losses due to counterparty default																	0
R0240 Net best estimate of Claims Provisions																	3,415
R0250 Total best estimate - gross																	3,415
R0260 Total best estimate - net																	3,415
R0270 Risk margin																	3,415
R0280 Amount of the transitional on Technical Provisions																	3,415
R0290 Technical Provisions calculated as a whole																	3,415
R0300 Best estimate																	3,415
R0310 Risk margin																	3,415
R0320 Technical provisions - total	3,415																3,415
R0330 Recoverable from reinsurers (R0320) and Findex Re after the adjustment for expected losses due to counterparty default - total	0																0
R0340 Technical provisions minus recoverables from reinsurers (R0320) and Findex Re - total	3,415																3,415

### S.19.01.21 Non-Life insurance claims

#### Total Non-life business

20020 Accident year / underwriting year

Gross Claims Paid (non-cumulative) (absolute amount)													
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Year	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
R0100 Prior											75,358	75,358	75,358
R0160 2009	0	0	0	0	0	0	0	0	0	19,734		19,734	19,734
R0170 2010	0	0	0	0	0	0	0	0	19,672			19,672	19,672
R0180 2011	0	0	0	0	0	0	17,276					17,276	17,276
R0190 2012	0	0	0	0	0	16,966						16,966	16,966
R0200 2013	0	0	0	0	18,134							18,134	18,134
R0210 2014	0	0	0	18,098								18,098	18,098
R0220 2015	0	0	17,562									17,562	17,562
R0230 2016	0	0	20,434									20,434	20,434
R0240 2017	0	20,604										20,604	20,604
R0250 2018	21,284											21,284	21,284
R0260 Total												265,121	265,121

Gross Undiscounted Best Estimate Claims Provisions (absolute amount)													
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)	
R0100 Prior											3,270	3,270	
R0160 2009	0	0	0	0	0	0	0	0	1,709			1,709	
R0170 2010	0	0	0	0	0	0	0	1,726				1,726	
R0180 2011	0	0	0	0	0	0	1,807					1,807	
R0190 2012	0	0	0	0	0	1,877						1,877	
R0200 2013	0	0	0	0	2,090							2,090	
R0210 2014	0	0	0	2,275								2,275	
R0220 2015	0	0	2,255									2,255	
R0230 2016	0	0	2,620									2,620	
R0240 2017	0	2,493										2,493	
R0250 2018	2,361											2,361	
R0260 Total												24,483	



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

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

R0010 MCR<sub>NI</sub> Result

C0010

1,612

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

C0020

C0030

3,425

30,866

0

0

0

0

0

0

0

0

0

0

0

0

0

0

0

0

## Linear formula component for life insurance and reinsurance obligations

R0200 MCR<sub>L</sub> Result

C0040

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
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C0050

C0060

R0210 Obligations with profit participation - guaranteed benefits  
R0220 Obligations with profit participation - future discretionary benefits  
R0230 Index-linked and unit-linked insurance obligations  
R0240 Other life (re)insurance and health (re)insurance obligations  
R0250 Total capital at risk for all life (re)insurance obligations

## Overall MCR calculation

R0300 Linear MCR

C0070

1,612

R0310 SCR

10,608

R0320 MCR cap

4,773

R0330 MCR floor

2,652

R0340 Combined MCR

2,652

R0350 Absolute floor of the MCR

2,222

R0400 Minimum Capital Requirement

2,652

## **Validations**

HSF health plan

Approval by the Board of Directors of the Solvency and Financial Condition Report  
Financial period ended 31 December 2018

We certify that:

1. the Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and
2. we are satisfied that:
  - (a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
  - (b) it is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued so to comply, and will continue so to comply in future.

**Approval by the Administrative, Management or Supervisory Body (AMSB) of the SFCR and reporting templates**



Paul Jackson  
Chief Executive Officer  
HSF health plan

