



The New India Assurance Company Limited

UK BRANCH

(A Third Country Branch of The New India Assurance Co Ltd, Mumbai, India)

Solvency and Financial Condition Report

SFCR

2018-19

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Executive Summary

This document is the Solvency Financial Condition Report (“SFCR”) for UK Branch of The New India Assurance Co. Ltd (“NIA - UK” or “the Branch”) as at the year ended 31st March 2019. This SFCR covers NIA - UK on a solo basis.

This SFCR provides information on the solvency of NIA - UK (i.e. our ability to pay liabilities, primarily current and future policyholder claims) and additional information on how we manage the financial strength of the Branch.

The report covers the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management. The Branch’s Executive Management Team (“EMT”) has ultimate responsibility for all of these matters and is supported by other control functions in place to monitor and manage the business.

The information in this SFCR is based on the year ended 31st March 2019.

The Branch’s reporting and presentational currency is GBP.

Figures are shown in £000’s, any minor difference shown in totals is due to rounding.

NIA - UK Background

NIA - UK is owned by the Government of India and operates in the UK as a third country branch of the New India Assurance head office. NIA - UK operates out of London and Ipswich, writing both direct insurance, and reinsurance contracts.

From 2017, the parent company New India Assurance is listed on the Bombay Stock Exchange (BSE), and the National Stock Exchange (NSE).

Direct business written from Ipswich consists of direct operations of UK provincial business combined risks (motor, employer’s liability, public liability and property for homeowners and small-medium enterprises).

Reinsurance business written from London is both facultative property and property treaty business.

NIA – UK is authorised by the Prudential Regulation Authority (“PRA”), and jointly regulated by the Financial Conduct Authority (“FCA”) and the PRA.

The following is a high-level description of the contents of each section in this document.

A. Business and performance

This section describes business performance and significant events during the year. It also includes details on our structure, how we are regulated and who our auditors are.

During the financial year ending 31st March 2019, NIA - UK have written gross written premiums of £170.8m (£159.0m in 2017/18) - consisting of £98.8m (£90.7m in 2017/18) from combined direct operations and £72.0m (£68.3m in 2017/18) from inward reinsurance operations which represented modest growth in premium of 7% against that of the previous year (5%).

The Solvency Capital Ratio reduced from 136.9% in 2017/18 to 114.4% for 2018/19 owing to an increase in attritional claims, and adverse experience from typhoon events and large risk losses. Overall the branch is protected by extensive reinsurance protection, and NIA – UK are well placed to uphold all policyholder liabilities.

B. System of Governance

This section outlines our system of governance and risk management framework including details on how the Branch is directed and controlled. We also describe our remuneration policy and practices, and our adherence with the ‘Fit and Proper Requirements’ when appointing employees to key functions within the Branch.

NIA - UK employs systems of governance which are commensurate with the nature and size of the business, our products and risk profile, through a combination of internal and external knowledge and resources. A key part of NIA – UK’s systems of governance is the three lines of defence model. The first line of defence comprises the management of day to day activities, risks and controls and the second line of defence involves the independent oversight of day to day activities and controls implemented by the first line by the risk and compliance team. The third line of defence rests with the internal auditors.

C. Risk profile

This section describes our risk profile, including risk exposures, concentrations, mitigation and sensitivity. NIA – UK’s risk profile is stable and generally changes only gradually from year to year. However, the work we do to mitigate and manage risk is enhanced and strengthened each year.

NIA – UK underwrites a well-diversified portfolio of direct insurance and reinsurance operations (Property Facultative and Treaties on proportional and non-proportional basis). The risk categories contributing to our Solvency Capital Requirements (“SCR”) are shown in the chart below.



The chart illustrates that non-life underwriting risk and counterparty risk make up the largest portion of the Branch’s SCR. The SCR represents the minimum level of capital NIA – UK should hold to protect the business from a 1-in-200 year event over the next 12 months.

In order to help mitigate non-life underwriting risks, NIA - UK maintains a disciplined underwriting philosophy that is supported by risk appetites set at the aggregate level as well as individual class.

NIA - UK also benefits from a comprehensive reinsurance programme that provides protection for both direct insurance and reinsurance business.

NIA - UK undertakes stress and scenario testing to test resilience of the Branch’s capital. The results of this analysis showed that the most sensitive part of the SCR is premium/reserve risk element of non-life underwriting risk. Premium/reserve risk for NIA – UK is driven by business growth with corresponding increases in claims. This demonstrates the importance of disciplined underwriting philosophy and controlling growth targets against available capital.

D. Valuation for solvency purposes

In this section, we describe the bases and methods used for the valuation of our assets, technical provisions and other liabilities. The analysis includes a comparison to UK GAAP results and details of any judgements and assumptions made.

NIA - UK holds technical provisions to represent the current amount an insurer would have to pay to transfer of its (re) insurance obligations to another (re)insurer. This therefore represents the amount of money we would hold in reserve for claims and premiums for policies. The technical provisions are comprised of two key elements: the Best Estimate Liability (“BEL”) and the Risk Margin (“RM”). The BEL is calculated as the probability weighted average of future cash flows discounted back to the relevant balance sheet date using risk free discount rates.

The Risk Margin represents an allowance for the cost of capital necessary to support the policies NIA - UK is obligated until the final settlement date.

NIA - UK uses the UK GAAP reserves as the starting point for determining the Solvency II (SII) technical provisions. Adjustments are made to move from the UK GAAP basis to the Solvency II basis. These adjustments are detailed within Section D2.

E. Capital management

NIA - UK has a strong and stable capital position under SII and our capital (referred to as 'Own Funds' under SII) is of a high quality. This section describes our approach to capital management and includes information on the amount and quality of our eligible Own Funds.

Under Solvency II the own funds of an insurance entity are placed into Tiers 1, 2 or 3 based on their ability to absorb losses, Tier 1 being the most readily available to absorb losses. Below is a summary of the own funds held by NIA - UK and a comparison to the regulatory capital requirements (the amount of capital the Branch is required to hold).

Asset category (£ 000's)	31/03/2019	31/03/2018
Tier 1 (unrestricted)	128,018	148,812
Tier 2	-	-
Tier 3 (recognised deferred tax asset)	3,513	2,193

The table below shows the ratio of eligible own funds to the SCR and MCR calculated under Solvency II shown in £000's.

Description	31/03/2019	31/03/2018
Total Assets	353,719	333,656
Total Liabilities	222,188	182,651
Basic Own Funds	131,531	151,005
SCR	114,992	110,299
MCR	33,888	27,575
Ratio of Eligible own funds to SCR	114.4%	136.9%
Ratio of Eligible own funds to MCR*	377.8%	539.7%

* Ratio of eligible own funds compared to MCR exclude deferred tax assets.

Overall NIA - UK holds own funds equal to 114.4% of the SCR and 377.8% of the MCR.

Head of Third Country Branch statement

I acknowledge my responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations. I am satisfied that

- throughout the financial year in question, the Branch has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the NIA - UK;
- it is reasonable to believe that the Branch has continued to so comply subsequently and will continue to so comply in future.



Neerja Kapur
Head of Third Country Branch Function – UK Branch
Date: 05th July 2019

Auditor's Report

Report of the external independent auditor to the Head of Third Country Branch function of The New India Assurance Company Limited, UK Branch ("The Branch") pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by The New India Assurance Company Limited, UK Branch as at 31 March 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of The New India Assurance Company Limited, UK Branch as at 31 March 2019, (**the Narrative Disclosures subject to audit**); and
- Branch templates S02.01.02, S17.01.02, S23.01.01, S25.01.01, S28.01.01, (**the Templates subject to audit**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Branch templates S05.01.02;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of The New India Assurance Company Limited, UK Branch as at 31 March 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, and as supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of The New India Assurance Company Limited, UK Branch in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard, 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 Head of Third Country Branch function's use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the Head of Third Country Branch function have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Branch'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 Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter — Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Head of Third Country Branch function is responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, 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 relevant elements of the Solvency and Financial Condition Report 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.

Responsibilities of Head of Third Country Branch function for the Solvency and Financial Condition Report

The Head of Third Country Branch function responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Head of Third Country Branch function is also responsible for such internal control as she determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report¹

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

This report is made solely to the Branch's Head of Third Country Branch function, as a body, in accordance with rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms. Our audit work has been undertaken so that we might state to the Branch's Head of Third Country Branch function those matters we are required by the rules 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 Branch and the Branch's Head of Third Country Branch function as a body for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of The New India Assurance Company Limited, UK Branch's special purpose financial information solely for consolidation reporting purposes. 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.

Grant Thornton UK LLP

Grant Thornton (UK) LLP

Statutory Auditor, Chartered Accountants

London

05 July 2019

The maintenance and integrity of The New India Assurance Company Limited, UK Branch website is the responsibility of the Head of Third Country Branch Function; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

A. Business and Performance

A.1 Business

A1.1 Name and legal form of the undertaking

New India Assurance Branch Limited (“NIA - UK”) operates as a Third Country Branch undertaking of The New India Assurance Co. Ltd (“NIA – India”), an insurance company based in Mumbai, India.

The London Branch of UK operations is located at:

36 Leadenhall Street,
London,
EC3A 1AT

This Solvency and Financial Condition Report (“SFCR”) covers NIA - UK on a solo basis only.

The New India Assurance Co. Ltd is majority owned by the Government of India, and operates in the UK as a third country branch.

The Branch’s external auditor is Grant Thornton (UK) LLP and their head office is located at:

Grant Thornton,
30 Finsbury Square,
London,
EC2A 1AG

A1.2 Business Strategy

NIA - UK has had a long-term presence in the UK market dating back to 1920. During this time Gross Written Premium (“GWP”) from general insurance and trading from the Lloyd’s desk has grown to over £170.8 million.

NIA - UK continues to develop its products and service standards, thereby broadening and strengthening relationships with existing customers and brokers, while all the time attracting new business and new customers.

NIA - UK’s products in direct operations include business combined, office and surgeries, hotels, pubs and guesthouses, wholesale and manufacturers, shops and restaurants, care homes and residential and commercial properties. Motor and Household’s business products are serviced through Managing General Agents (“MGAs”). The London Facultative team writes a small portion of direct business under co-insurance basis including waste/recycling risks.

NIA - UK’s reinsurance operations from the London office and the box at Lloyd’s includes Property Facultative and Treaties on proportional and non-proportional basis.

NIA - UK’s key strategies are to:

- provide excellent customer service;
- continue to offer a comprehensive product range to their customers;
- continue to develop products and service standards, thereby broadening and strengthening relationships with existing customers, brokers, and MGA’s;
- continually attract new business, customers, and cedants;
- maintain AM Best rating of A- and strive to get this upgraded;
- maintain a Solvency ratio in excess of 100%, and to hold sufficient capital to provide at least a 99.5% level of confidence that policyholder liabilities will be met;
- continue the long-term presence in the UK;
- maintain and develop lasting relationships and goodwill with clients, MGA’s, brokers and intermediaries; and
- continue to establish our identity as a dependable security and service provider.

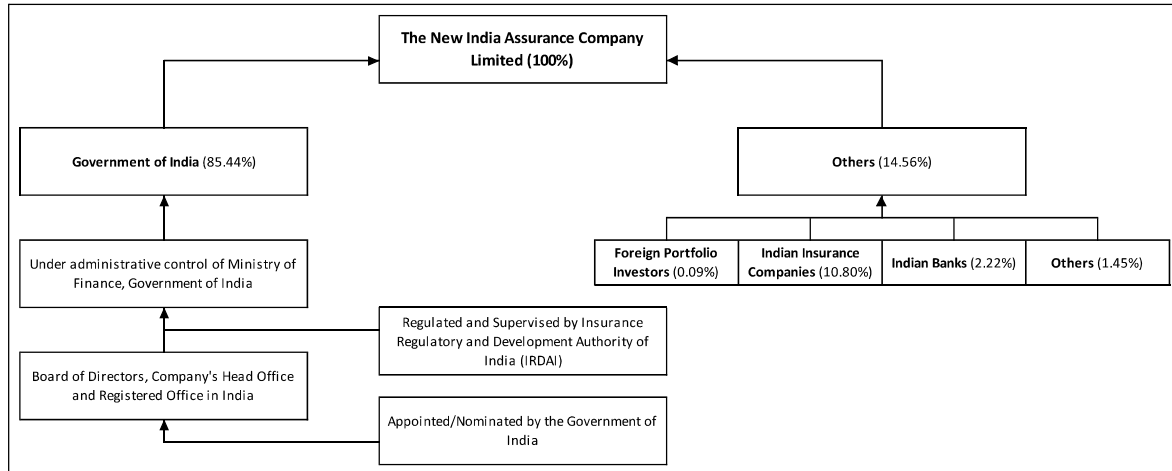
NIA - UK's long-term presence in the UK market provides a secure, solid base from which to continue to develop and direct a diverse range of insurance interests.

A1.2 Material Subsidiaries

NIA – UK does not have any subsidiaries.

A1.3 Legal Structure

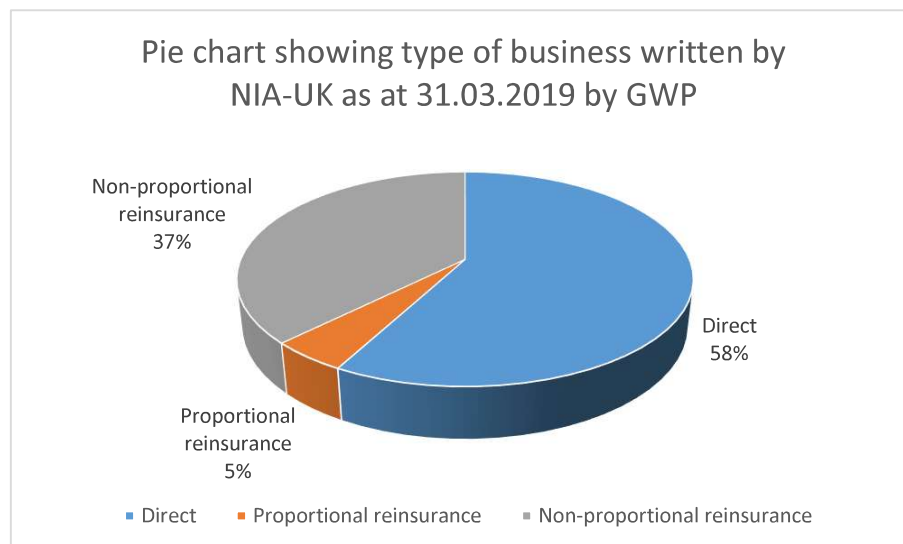
The chart below shows the structure of the ownership and legal links that affect NIA - UK. NIA – India is owned majority by the Government of India. NIA – India is regulated by Insurance Regulatory and Development Authority of India (IRDAI).



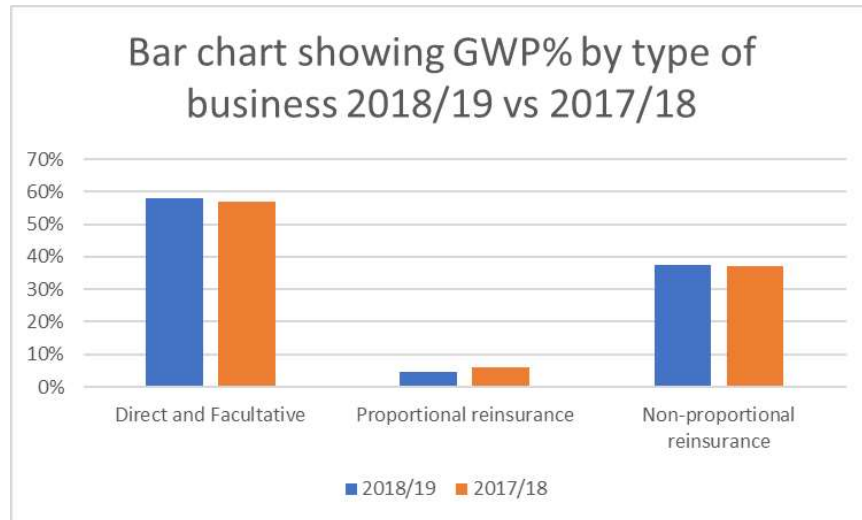
Strategy and portfolio

NIA - UK's strategy is to achieve long-term book value growth commensurate with the NIA - India objective of being a global property/casualty general insurer of choice, maximising the benefits of the local UK presence and global service and writing products in all territories.

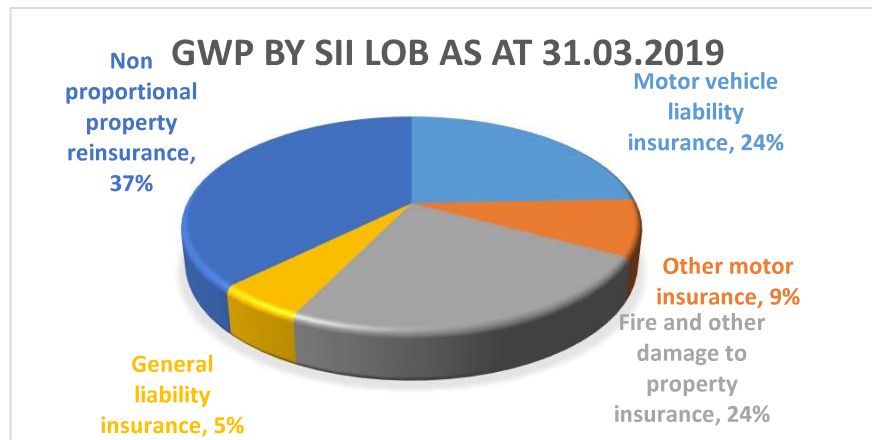
Premium income distribution by type of business and then by Solvency II line of business (SII LOB) is shown in graphs below.



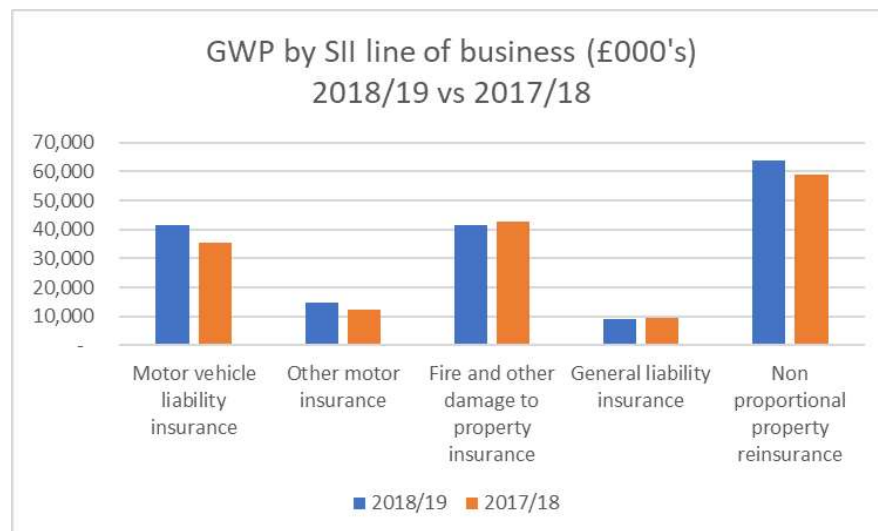
The chart below shows a comparison of premium income by Solvency II lines of business for 2018/19 and 2017/18:



Direct business consists of motor and property business written out of London and Ipswich.



No new classes of business were underwritten by the Branch in the year ended 31st March 2019. The chart below shows GWP split by Solvency II line of business for 2018/19 compared to 2017/18:



A1.4 Business Performance 2018/19

The following table provides details of key performance indicators under UK-GAAP for NIA – UK for the years ended 31st March 2019 and 2018 in £000's.

UK GAAP Performance Indicators (£000's)	2018/19	2017/18
Net Earned Premium	111,832	109,384
Underwriting Profit/(Loss)	(23,073)	1
Net Combined Ratio	120.6%	99.4%
Investment Return	5,341	4,975
Investments/cash deposits	286,613	250,688
Investment yield	1.9%	2.0%
Investments/Cash deposits	286,613	250,688
Total Assets	443,205	410,462
Proportion of Investments/Cash of Total Assets	65.0%	61.0%
Opening equity of NIA - UK	161,714	170,285
Profit/(Loss) for period	(10,647)	(4,099)
Net funds received/(paid) from Branch Head Office	(2,385)	(4,472)
Closing equity of NIA - UK	148,682	161,714

The underwriting loss £(23,074)m was mainly driven by:

- Catastrophe events such as Typhoons Jebi and Trami;
- Large risk losses from the Grupo Mexico mining disaster; and
- An increase in attritional claims from UK motor.

These losses were largely protected by comprehensive reinsurance programmes, however during 2018/19 there was removal of two quota shares which increased the underwriting losses to NIA – UK on two MGA portfolio's.

The total value of investments/cash deposits held is increased compared to the previous year despite the catastrophe and risk loss events, this was due to the late notification of claims towards the last 3 months of the financial year. There continues to be a healthy composition of investments and cash deposits within total assets. However, investment yields continue to be affected by macroeconomic conditions and the low interest rate environment.

A.2 Underwriting Performance

A.2.1 Underwriting Performance

Gross underwriting margins are shown followed by underwriting profit and loss under Solvency II lines of business for the periods 2018/19 and 2017/18 are shown below (in £000's):

	Motor Vehicle Liability Insurance	Other Motor Insurance	Proportional Fire & Other Damage to Property*	General Liability Insurance	Non Proportional Property Reinsurance**	Total
2018/19						
Written Premium	41,610	14,620	41,441	9,211	63,938	170,821
Earned Premium	36,725	12,903	41,285	9,523	61,867	162,304
Incurred Claims	27,967	9,826	28,883	8,023	59,859	134,557
Underwriting Margin	8,758	3,077	12,403	1,501	2,009	27,747

* 81.24% relates to direct business and 18.76% relates to proportional reinsurance based on gross earned premiums.

** 39.86% relates to facultative and 60.14% to treaty non-proportional reinsurance.

	Motor Vehicle Liability Insurance	Other Motor Insurance	Proportional Fire & Other Damage to Property*	General Liability Insurance	Non Proportional Property Reinsurance**	Total
2017/18						
Written Premium	35,493	12,471	42,784	9,483	58,808	159,039
Earned Premium	35,013	12,302	45,742	9,740	54,415	157,212
Incurred Claims	28,807	10,121	32,893	4,947	46,302	123,070
Underwriting Margin	6,206	2,181	12,849	4,793	8,113	34,141

* 80.64% relates to direct business and 19.36% relates to proportional reinsurance based on gross earned premiums.

** 40.48% relates to facultative and 59.52% to treaty non-proportional reinsurance.

Type of business by gross written premium shown in £000's:

2018/19 - £000's	Gross Written Premiums	Gross Earned Premiums	Gross Incurred Claims	Gross Operating Expenses	Reinsurance Recoverable Balances	Underwriting Profit/Loss
Proportional Reinsurance	8,043	7,744	16,684	1,934	(834)	(11,708)
Non-Proportional Reinsurance	63,938	61,867	59,859	14,176	3,994	(8,173)
Direct and Facultative	98,839	92,693	58,015	25,646	(12,224)	(3,192)
Total	170,821	162,304	134,557	41,756	(9,064)	(23,073)

2017/18 - £000's	Gross Written Premiums	Gross Earned Premiums	Gross Incurred Claims	Gross Operating Expenses	Reinsurance Recoverable Balances	Underwriting Profit/Loss
Proportional Reinsurance	9,501	8,857	10,635	1,880	789	(2,869)
Non-Proportional Reinsurance	58,808	54,415	46,302	11,832	8,591	4,872
Direct and Facultative	90,730	93,939	66,133	28,469	(713)	(1,376)
Total	159,039	157,211	123,070	42,181	8,667	627

A.2.2 Underwriting GWP by geographical area.

Region - 2018/19	Assumed Treaty	Direct / Assumed Facultative
United Kingdom	0%	73%
North and South America	38%	6%
Europe	27%	3%
Africa and Middle East	2%	2%
Asia and Australia	16%	8%
Caribbean	9%	7%
Worldwide	8%	1%

Region - 2017/18	Assumed Treaty	Direct / Assumed Facultative
United Kingdom	3%	74%
North and South America	31%	6%
Europe	31%	3%
Africa and Middle East	1%	4%
Asia and Australia	16%	5%
Caribbean	12%	6%
Worldwide	6%	2%

For more details and the breakdown of the Premiums, Claims and Expenses please refer to Annual Return Template S.05.01 (un-audited).

The performance has been in line with the branch's existing policies and projections. Apart from fulfilling the branch's policy requirements, NIA - UK have also shown a modest growth of 7% in GWP in 2018/19.

A.3 Investment Performance

Investment Strategy

NIA – UK's investment strategy is built around the following objectives:

- Maintaining sufficient liquidity to meet likely obligations;
- Generating investment income to enhance and supplement the profitability of UK operations;
- Ensuring preservation and safety as well as the value of the investments; and
- Growing the value of the investments through capital appreciation.

The long-term objective is to achieve an average annual investment return of 2 - 3% which will be dependent on the prevailing central bank base rates. For the financial year 2018/19 the investment return was 1.9%.

The investment results for 2018/19 under SII are shown below:

Asset Category - 2018/19 (£000's)	SII Market Value	Total Income
Fixed Deposits and Cash	285,561	5,403
Corporate Bonds	797	39
Government Bonds	3,665	44
Total	290,023	5,485

Asset Category - 2017/18 (£000's)	SII Market Value	Total Income
Fixed Deposits and Cash	255,340	5,020
Corporate Bonds	820	49
Government Bonds	3,512	31
Total	259,673	5,100

Deposits with credit institutions are primarily money market instruments held in Indian banks based in the United Kingdom. These accounts are denominated in Sterling, US Dollars and Euro with the purpose of paying claims in the required currency based on regional exposure.

NIA - UK currently holds £4.5 million in investments through a Fund Manager. This portfolio is regularly monitored and tracked with periodic statements from the Fund Managers and NIA - UK still retains the option to provide more funds at any time up to £25 million.

A.4 Performance of other activities

NIA - UK does not receive any material income other than that received from its underwriting and investment performance.

NIA - UK has no financial or operating lease arrangements, as lessor.

As lessee, the Branch utilises office space in both London and Ipswich which are held under operating leases. The latter are not treated as assets under current UK GAAP reporting.

A.5 Any other information

No other significant business or other events have occurred over the reporting period that have had a material effect on NIA - UK.

NIA - UK does not consider there is any other material information to disclose on its business and performance.

B. System of Governance

B.1 General information on the System of Governance

NIA – UK's System of Governance provides a framework through which the Branch's risks are adequately directed and controlled. The system comprises a clear organisation structure, transparent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it might be exposed and an adequate internal control mechanism all of which promote effective risk management.

NIA - UK maintains a Governance Map as required by the PRA's Senior Managers & Certification Regime (SM&CR) that shows the distribution of responsibilities of individuals for the systems of internal control of the Branch and the holders of specific responsibilities.

The Executive Management Team ("EMT") is satisfied that the system of governance as set out in the Governance Map, is adequate and appropriate for NIA - UK.

B1.1 The Executive Management of the Branch

The EMT is responsible for the governance and control of the Branch. In fulfilling these responsibilities, the EMT considers the relationships between risk, return and capital. These include amongst other things setting and overseeing the following:

- Business strategy
- Capital management
- Risk management
- Organisation structure
- Branch policies
- Remuneration
- Internal control framework

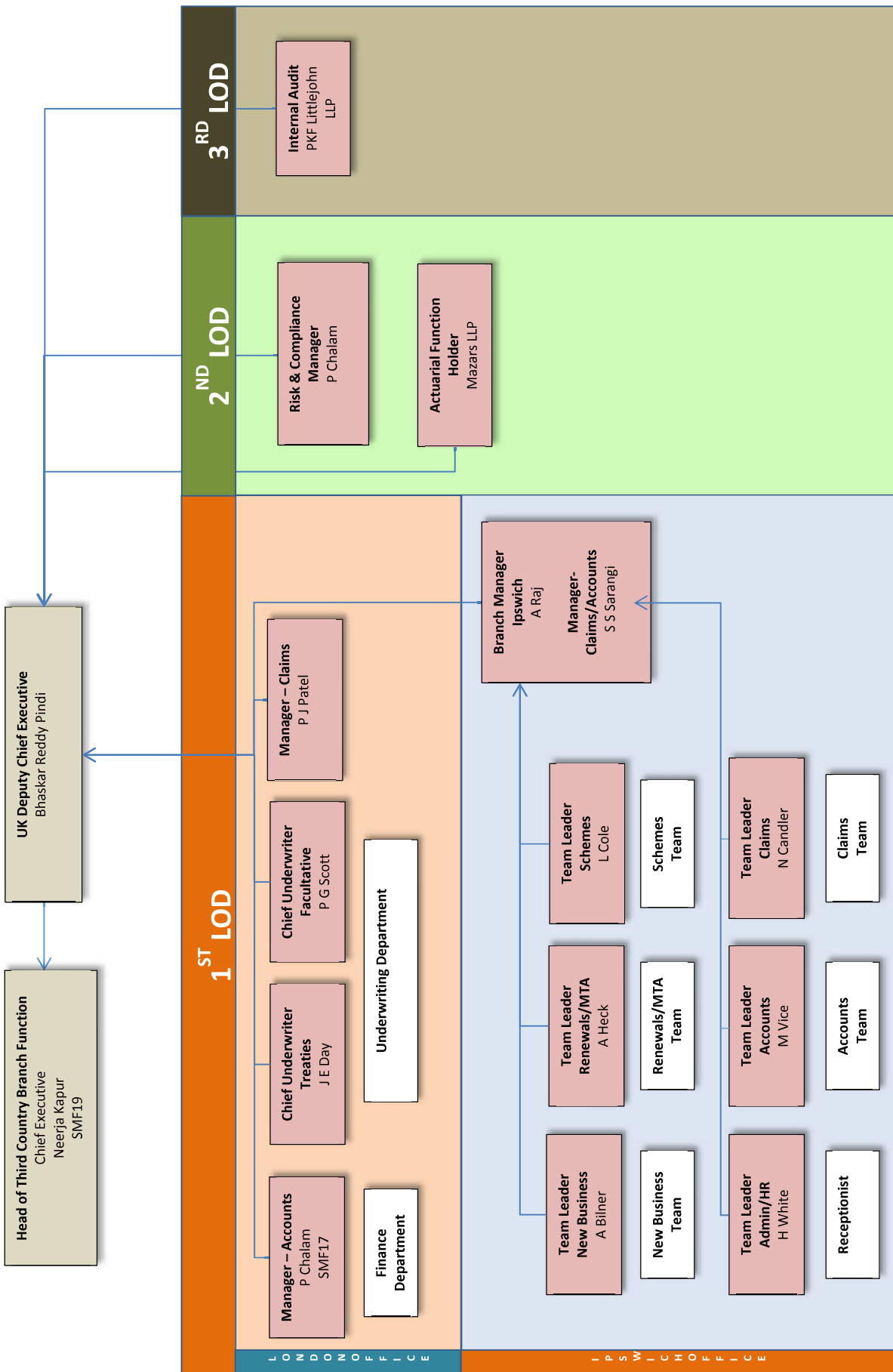
The EMT sets appropriate policies and assesses what constitutes a sound system of risk management and internal control in the particular circumstances of the Branch. In doing this, consideration is given to the following:

- The nature and extent of the risks facing the Branch
- The likelihood of the risks concerned materialising
- The Branch's ability to reduce the incidence and impact of the risks that do materialise
- The costs of operating particular controls relative to the benefit obtained in managing the related risks

B1.2 Structure of Governance Arrangements

The system of governance is considered to be appropriate for NIA - UK, taking into account the nature, scale and complexity of the risks inherent in the business.

The governance of the Branch is managed within the three lines of defence model as per the following chart:



Governance Management Functions

Mrs Neerja Kapur holds the PRA Senior Insurance Management Function of Head of Third Country Branch (SMF19) and is supported by Mr Bhaskar Reddy Pindi.

Mrs Pooja Chalam holds the PRA Senior Insurance Management Function of Money Laundering Reporting Officer (MLRO) (SMF17).

Executive and Management Responsibilities

The senior members of the Executive and Management team are as follows:

- N. Kapur (Head of Third Country Branch Function Office – UK Branch)
- B. R. Pindi (Deputy Chief Executive – UK Branch)
- A. Raj (Branch Manager Ipswich)
- J. E. Day (Treaty Underwriter)
- P. G. Scott (Facultative Underwriter)
- P. J. Patel (Manager – Claims)
- P. Chalam (Manager - Accounts and Compliance)

In addition to the primary focus on risk and capital, the EMT manages the ongoing business and affairs of NIA – UK. This includes:

- Approving the strategy, plans and budgets of the Branch;
- Ensuring that the Branch has adequate systems of internal control and reporting;
- Ensuring compliance with regulatory requirements and overseeing the Own Risk and Solvency Assessment process (“ORSA”);
- Ensuring adequate risk and liquidity management procedures are in place;
- To effectively oversee the operations of the loss reserving function of the Branch;
- To control and manage the underwriting and reinsurance matters of the Branch and, where appropriate, to liaise with the claims team on claims;
- To develop the Branch culture and standards in relation to the day to day management of the Branch, carrying on the business, and to empower staff;
- To maintain independence, integrity and effectiveness of the Branch’s policies and procedures on whistleblowing and protect members of staff who raise concerns, from detrimental treatment; and
- Ensuring adequacy of the Branch’s remuneration policies and procedures.

External Audit

The External Auditors are Grant Thornton LLP (“Grant Thornton”) who report directly to the Head of Third Country Branch on UK matters and NIA – India for group reporting purposes.

Responsibilities of the External Auditor

Grant Thornton conduct the non-statutory audit of the relevant elements of the Solo SFCR in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) including ISA (UK) 800 and ISA (UK) 805, and applicable law except for in respect of evaluating the overall adequacy of presentation.

In accordance with the ISAs (UK), Grant Thornton will communicate certain matters related to the conduct and results of the audit to those charged with governance. Such matters include:

- Grant Thornton’s responsibility under the ISAs (UK) for forming and expressing an opinion on the relevant elements of the Solo SFCR that have been prepared by management with the oversight of those charged with governance and that such an audit does not relieve management and those charged with governance of their responsibilities.
- An overview of the planned scope and timing of the audit including the type of work to be performed on the Solo SFCR.

- Any other findings on non-relevant components will be communicated to the management as a part of the audit.

Written representations requested from management and significant matters, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

B.1.2 Changes to the Governance Structure During the Year

NIA – India grants tenures for two years (with the possibility of extension) to the executive management teams of NIA – UK. During the financial year, the outgoing executive management team successfully completed their tenures including extension periods, and new management were appointed. Chief Executive Officer, Mrs Neerja Kapur replaced Mr Girish Radhakrishnan, and Deputy Chief Executive Mr Bhaskar Reddy Pindi replaced Mr Krishnamoorthy Venkat Raman.

In addition, the Assistant Branch Manager of Ipswich operations, Mr Anindya Roy also successfully completed his tenure, and was replaced by Mr Sruti Sarangi.

B.1.3 Remuneration Policy

The Remuneration Policy applies to all employees.

The purpose of the Remuneration Policy is to document the Branch's approach in setting remuneration for management and employees. The adoption of the Branch's Remuneration Policy and practices, which are fair, competitive and promote sustainable performance over the long-term, is a key responsibility of the EMT. In addition, the EMT ensure that the Branch's remuneration practices do not promote excessive risk taking but do promote sound risk management.

The Branch's Remuneration Policy supports the business strategy, objectives, values and long-term interests by aligning the objectives and incentives of staff with financial and non-financial performance.

The purpose of the NIA – UK's Remuneration Policy is to ensure that compensation practice:

- Reflects the risk strategy, profile and management practices
- Remains aligned with the Branch's' long-term business objectives, plan and strategy
- Promotes the Branch's culture and values
- Attracts, retains and motivates competent, experienced and skilled employees
- Minimises the risk of inappropriate behaviour, and
- Serves the best interests of the Branch, NIA – India, and its clients.

The EMT is responsible for:

- Approving the Remuneration Policy
- Oversight of compensation practice to ensure that compensation is in line with the business plan and strategy
- Recommending compensation of all staff
- When appropriate agreeing any bonus payments to employees
- Agreeing the terms of any staff benefit schemes
- Ensuring salary reviews and bonus payments are consistently applied throughout the Branch
- Ensuring employee performance in respective area(s) of responsibility is reviewed, monitored and assessed in a consistent manner across the organisation
- Communicating performance of overall units and individual employees under their respective areas of responsibility.

Considering organisational and individual performance and ratifying actions to be taken within the annual compensation processes including promotional, merit and cost of living adjustments.

B.2 Fit and Proper Requirement

B.2.1 Processes

NIA - UK has put in place practical guidance on what the Branch needs to do in order to ensure all Relevant Employees of NIA – UK meet the Fit and Proper Standards set out in the Solvency II Directive and required by the PRA and FCA.

B.2.2 Relevant Employees

The following are NIA – UK’s “Relevant Employees”

Branch Executive and Management

- Head of Third Country Branch
- Deputy Chief Executive – UK Branch
- Branch Manager - Ipswich
- Manager - Ipswich
- Chief Underwriter – Treaties
- Chief Underwriter – Facultative
- Manager – Accounts & Compliance
- Manager – Claims

Key managers:

Key Function Holders and others in key functions (“Key Managers”) include persons who are responsible for the high-level decision making and formulating the strategies and policies of NIA - UK.

- Head of Third Country Branch
- Deputy Chief Executive – UK Branch
- Branch Manager - Ipswich
- Manager – Ipswich
- Chief Underwriter – Facultative
- Chief Underwriter - Treaties

Details of SMFs, Key Function Holders and others in key functions are included within the NIA - UK Governance Map, which is reviewed and updated when required. Any changes to personnel included within the scope are advised to the NIA - UK supervisor via submission of the Governance Map.

All the required personnel meet the fit and proper requirements provided by the regulatory policies governing these functions.

B.2.3 Minimum Requirements of Key Persons

NIA – UK has implemented appropriate assessments to ensure that Relevant Employees meet the following minimum requirements both at appointment and on an on-going basis:

- Appropriate competence and capability, taking into account professional qualifications, training, knowledge and relevant experience including understanding of regulatory requirements to enable sound and prudent management (fit); and
- Propriety, taking into account reputation, financial soundness and personal characteristics such as integrity and transparency (proper).

B.3 Risk Management System, including Own Risk Solvency Assessment

A fundamental part of NIA – UK’s risk management system is the development, implementation and maintenance of a risk management register (“the Risk Register”). The fundamental objectives of the Risk Register are to:

- Improve decision making by ensuring risk is considered in the formulation and implementation of business strategies so that they are designed to achieve an optimum balance between capital, risk and reward.
- Allow the identification of business activity where risks may arise and effectively manage those exposures to a level consistent with the Branch’s risk appetite.

In addition, NIA – UK has put in place policies for key risks faced by the Branch which consequently represent the areas of focus for strategic business decisions and risk management activities.

The NIA – UK EMT holds ultimate responsibility for the effectiveness of the system of risk management including the related policies that provide additional process and governance.

B.3.1 Risk Strategy and Policies

The Branch’s Risk Management Policy defines the key risk principles with regard to risk management within NIA - UK and also the categories of risk faced by the Branch.

The supporting policies approved by the EMT, set out how risk is managed, procedures and tasks to be undertaken, the implications for capital, risk appetite and frequency of stress testing. It is Branch policy that relevant scenario and stress tests are to be completed at least annually. Furthermore, ad hoc stress tests are to be considered when it is anticipated that the risk profile of the Branch may significantly change or at any time at the direction of the EMT.

B.3.2 Risk Management Function

Key risks are regularly identified taking the top five risks per residual risk rating. These are managed by adopting the following risk mitigation methods:

- Tolerate/Accept – acknowledge the existence of a particular risk and make a deliberate decision to accept it without engaging in special efforts to control it.
- Terminate/Avoid – adjust requirements or constraints to eliminate the risk
- Treat/Control – implement actions to minimise the impact or likelihood of the risk
- Transfer – reassign organisational accountability, responsibility, and authority to another stakeholder willing to accept the risk

Roles and Responsibilities:

The Head of Third Country Branch and the Deputy Chief Executive are responsible for monitoring the business performance, risk profile and risk management framework to promote:

- Compliance with this and the other risk processes;
- Operation within NIA - UK’s risk appetite and stated risk limits;
- Identification of any breaches (or potential breaches) of the Risk Management Policy and risk limits, appropriate escalation and the development of corrective plans;
- The identification of changes to the operating environment as early as possible so that appropriate changes to risk strategy, risk appetite and risk limits can be made in a timely manner;
- Ensuring that controls are effective and efficient in both design and operation;
- Obtaining further information to improve risk assessment; and
- Analysing and learning lessons from events, changes, trends, successes and failures.

B.3.3 Integration of the Own Risk and Solvency Assessment into the Business

At least on an annual basis, NIA – UK completes an Own Risk and Solvency Assessment (“ORSA”).

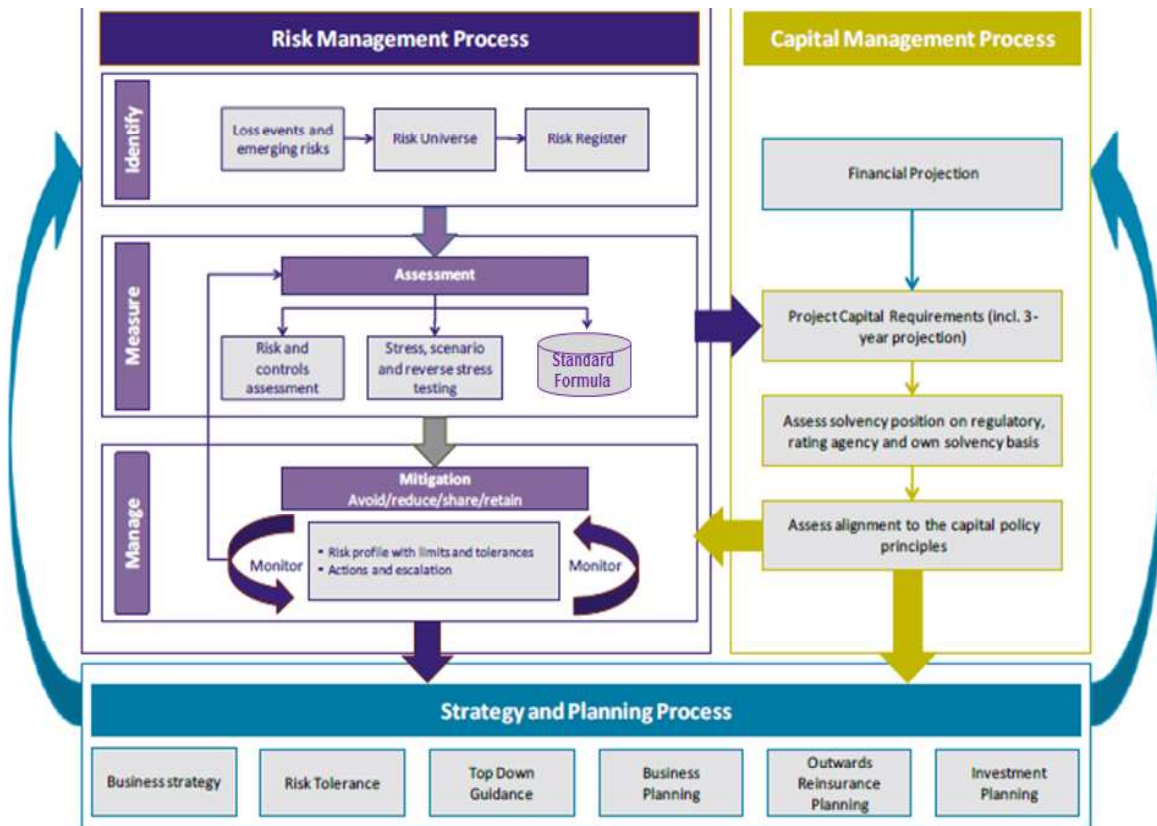
In performing the ORSA, the EMT takes responsibility for considering risk, capital and return within the context of the Branch’s business strategy on a forward-looking basis. The main elements of the ORSA include the business strategy, an assessment of the risk profile, risk tolerances and an assessment of the Branch’s solvency requirements.

The ORSA process performed by the NIA - UK considers all relevant Branch risks and establishes an “own view” of capital requirements for the Branch. These requirements are calibrated to a confidence level not less than 99.5% over a 1-year horizon. The “own view” process first considers all key risks relevant for the Branch and then considers the appropriateness of the Solvency II Standard Formula with regard to its suitability in determining “own view” capital requirements.

Stress testing is also completed regarding the Branch’s resilience to withstand both plausible and extreme shocks over the planning horizon. The ORSA forms an integral part of the strategic assessment process and the medium-term planning process by taking a holistic view on relevant risks that threaten the achievement of strategic objectives in relation to future capital needs. NIA - UK monitors risk metrics with a view to ensuring continuous compliance with capital requirements. These metrics are focused on the key drivers of risk and risk capital and allow early identification of any potentially significant capital events.

The EMT directs the ORSA process, determining the selection and calibration of stresses, challenging the results and considering the ORSA report for approval. Key Branch decisions are considered from an ORSA perspective on an ongoing basis.

A diagram illustrating the overall process of the ORSA is set out below:



Risk Management Process

Risk management and the processes that form part of it enable the identification, measurement, monitoring and the management of risks on a continuous basis. These processes capture all risks, including those not part of the capital requirement, and enable NIA - UK to understand all risks that it is exposed to at any point in time.

The NIA – UK risk management process consists of the following three elements:

- The continual identification of risks and the assessment of mitigating controls including an assessment of the design and effectiveness of the controls. This also includes an assessment of the likelihood of the risk occurring and the potential impact to the Branch if the event was to occur. This is measured for both inherent and residual risk taking into account the mitigating controls.
- The measurement and the quantification of risks (risk and capital modelling): NIA – UK does this through a combination of modelling techniques, stress and scenario testing and qualitative analysis, using relevant internal and external data.
- The management and monitoring of the risks is used to improve how the business is managed and controlled and allows for the development, modification and delivery of the business plan.

The risk management policy (and associated risk policies) provides background on the key processes that embed risk management into NIA - UK along with setting out and defining each material category of risk.

The risk management process includes the implementation of the Risk Register and demonstrates the link between the identification and assessment of the risks NIA - UK is exposed to, the controls and mitigation actions taken to manage those risks, quantification of the risk profile and monitoring alignment with the desired risk appetite. As well as considering the current position, it also includes the forward-looking risk profile over the three-year business planning period.

Risk Identification and Assessment

Risk Register

The risks faced by NIA - UK and entities are identified and set out in the Risk Register using the following categories:

Category	Description
Risk ID	Unique identifier and risk number
Risk category	Classification of risk
Risk Sub Category	Further classification of the risk category and defines the process risks.
Department	The specific NIA – UK department to which the risk is classified
Risk Description	Description of the risk
Strategic Owner	Individual responsible for strategic goal or objective at risk
Functional Risk Owner	Owner of understanding risk and executing mitigation
Inherent Risk	The risk to the organisation in the absence of controls measured on a likelihood -v- severity score
Current Oversight, Monitoring or Executive Controls	The mitigating controls that are in place to minimise the likelihood or the impact of the risk.
Residual Risk	The risk to the organisation taking into account the mitigating controls. Measured on a likelihood -v- severity score
Risk Impacts	Areas of the business to classify the categories impacted if the risk was to occur including financial, infrastructure, reputational & marketplace
Control Effectiveness	A measurement on the effectiveness of the current controls

Control Gap / Recommendations / Mitigation Measures	Any additional controls that may be required to reduce the risk
Remediation deadline	What is the deadline to implement further remediation controls
Maximum Loss Estimate (MLE)	An estimation of the impact should the risk be triggered measured by financial, infrastructure, reputational and marketplace impact

Emerging risks and loss events

Emerging risks are identified and assessed. Loss and near loss events are also identified. There are separate logs for recording emerging risks and loss events information. One such emerging risk is the future effects of climate change, and the implications for NIA - UK. The physical impact risk of climate change could include the increase in frequency and severity of extreme weather events across the globe which NIA – UK issue policies to protect policyholders against. Examples of specific events which could occur at ever-increasing rates include forest fires, hurricanes, earthquakes, flash floods and rising sea levels. This could cause problems for NIA – UK as historical experience is used as a guide to inform underwriting and the pricing of risks which may become ever more difficult to price into the future if past data becomes less representative of future risks.

Another emerging risk is the increasing sophistication of cybercrime. These could include penetration attacks of systems or unauthorised access of private data. NIA – UK have provided staff training to enhance cyber security awareness and to prevent security breaches. NIA – UK have renewed our Cyber Essentials certification, and continue to take proactive steps to protect data, to prevent misuse of data, and to secure payment systems. In addition, NIA – UK have recently conducted an audit of Branch IT controls, governance, security, and disaster recovery plans to ensure policies and procedures are in place to deal with disaster scenarios which could arise. NIA – UK continue to monitor developments in the cyber security space.

Risk Quantification

Risks are quantified using 3 tools:

- The Solvency II Standard Formula
- Risk and controls assessment
- Stress and Scenario testing

The Solvency II Standard Formula Model

The Standard Formula model is used to quantify risk and calculate capital requirements. This includes regulatory and business requirements which are used to project capital for future time periods. The risks identified as part of the risk universe are mapped to the Standard Formula which creates a risk profile for NIA - UK.

The Standard Formula is governed by policies and processes to ensure the model is well controlled, appropriately validated, fit for purpose and adequately reflects the risk profile. The model is used to calculate the baseline SCR and 3-year projection of cash flow, balance sheet and Solvency II capital requirements

The non-quantifiable risks are assessed qualitatively and the explanation of why no capital requirement is necessary is documented in the risk mapping. If the risk is assessed as requiring a capital charge it will be included in the final capital management actions.

Risk and controls assessment

The effectiveness of the controls is assessed using qualitative analysis which evaluates the level of residual risk after the application of the relevant mitigating controls. The emerging risks and operational risk events and near-misses are also tracked as part of risk and controls assessment.

Stress and scenario testing

Stress and scenario analysis is performed annually unless there is a change in the business plan and/or risk strategy. The analysis is used to assess the risk, capital and solvency position under stressed conditions considering a specific event and a combination of events. The stress and scenario tests are specific to NIA – UK’s risk exposures and are linked to the risk appetite. The EMT provides input for the overarching scenarios and reviews and approves the results of stress and scenario testing.

NIA – UK and Mazars have defined and used various scenarios and stress test analysis to test the adequacy of the Branch’s underwriting risk capital resources. The information below summarises some of the key stresses considered and the impact on underwriting risk capital.

a) Stress Test: Business growth faster than planned with a corresponding increase in claims

Rationale: The largest risk component to NIA – UK relates to premium/reserve risk, therefore NIA – UK stressed the potential impact if business volumes were to experience growth in excess of the business plan, with the corresponding increase in technical provisions, and future losses attached to new business.

Business volumes were increased by an additional 7.5% in addition to the business plan, with future losses on new business running at a portfolio average loss ratio of 71% and a corresponding increase in technical provisions due to the new business. It was seen that this stress resulted in the largest impact to the SCR and demonstrates the importance of disciplined underwriting philosophy and controlling growth targets against available capital. NIA – UK maintains strict underwriting controls to ensure growth targets are kept within available capital and NIA – UK actively monitors the emergence of this risk on a regular basis.

b) Stress Test: Impact of a reinsurance counterparty default

Rationale: NIA – UK purchases extensive retrocession reinsurance to protect the UK operations, however this opens the possibility of becoming reliant on a reinsurance counterparty who may face financial difficulties of their own. NIA – UK stressed the financial impact of our largest reinsurance counterparty defaulting. In this scenario it was assumed that in the short term the counterparty would be downgraded by credit rating agencies from A- to unrated, and in the longer term that they would default on their obligations, i.e. 100% probability of default of all funds due.

It should be noted however that NIA – UK actively manages reinsurance exposure and do not become over exposed to a single reinsurance counterparty, and in addition require a credit rating of at least A- from counterparties. As such, the possibility of such an extreme default situation should be incredibly unlikely, in any case there would be the possibility of recovering a portion of the funds through the legal system and so in a default event NIA – UK should not lose 100% of funds due as assumed in this stress test.

c) Stress Test: Devaluation of Sterling

Rationale: NIA - UK conducts business in 3 predominant currencies: GBP, USD, and EUR. NIA – UK stressed the impact on a deterioration in GBP. This could be the result of macroeconomic uncertainties following Brexit, such that liabilities in other currencies become more expensive to settle, and the assets held to settle these claims becoming worth less.

It was seen that this stress resulted in a deterioration to the capital position and demonstrates the importance of actively matching assets and liabilities in respective currencies to mitigate these risks to ensure that NIA – UK are able to provide at least a 99.5% level of confidence that policyholder liabilities will be met.

Risk Monitoring and Reporting

Risk Appetite and Tolerance Setting

The Head of Third Country Branch and Deputy Chief Executive set the risk appetite and tolerance limits that define the amount of risk the Branch is prepared to accept for each of its major risks. This is set out in the Risk Appetite statement and is periodically monitored. Any breaches/near breaches are highlighted and management actions taken in response.

Risk Profile

The output from the Standard Formula is reviewed to monitor whether the probability distributions and SCRs generated, adequately reflect the risk profile of NIA and entities. Deviations against the risk profile and limitations are identified and reported in line with the use of the model.

Risk and controls assessment

The risk and control assessment that forms part of the Risk Register is monitored on an on-going basis and any issues arising are reported to the EMT. This includes reporting of any operational loss and near-miss events. The emerging risks are considered as part of the assessment of the future risk profile.

The Capital Management Process

The assessment of overall solvency needs reflects NIA - UK's view of capital required taking into account risk exposure, risk appetite and business strategy.

To ensure on-going capital adequacy of current and future (3 year projected) capital positions are calculated as part of the capital management process. The capital adequacy will be assessed on each of the bases below:

- Regulatory – Solvency II Capital ratio (i.e. the percentage of eligible own funds to meet SCR)
- Internal Measures – management capital and capital principles

The capital management process is continuous and, in accordance with the Branch capital management policy, the capital requirements of NIA - UK, while being regularly monitored, are fully assessed annually or when a change in strategy, or an event occurs that has the potential to impact NIA - UK's capital adequacy.

Capital Management Policy

The Capital Management Policy sets out the amount of capital NIA - UK needs to hold. The economic capital for the Branch is set with reference to the overarching solvency risk tolerance as agreed by the EMT. Economic capital for the Branch also includes a capital buffer. NIA - UK's target is to hold capital in excess of 100% to ensure policyholder liabilities are met with a confidence level of at least 99.5%.

Capital Assessment

The Standard Formula is used to calculate regulatory and management capital requirements. This includes Standard Formula SCR and forms the basis for management capital. Capital Allocation Ratios ("CARs") are also produced and these are used to project capital requirements for the future planning period.

The EMT signs-off the Standard Formula results that are used for the capital setting purposes.

Solvency Monitoring

The financial projections are updated where appropriate and include the P&L and balance sheet over 3 years. This data forms the basis of the Standard Formula run and also provides the capital available (own funds) in order to assess the solvency position.

The capital update is undertaken at least annually by the Finance Team to allow for solvency monitoring. The Head of Third Country Branch and Deputy Chief Executive review this information to monitor the solvency position and risk appetite of the Branch. This process ensures continuous compliance with regulatory capital requirements on an ongoing basis.

Strategy and business planning (business processes)

Strategy and business planning is carried out on an annual cycle. High level strategy is set initially and then detailed planning is carried out in stages throughout the year. The following are examples of these key business decisions.

Strategy

The long term high level strategy is reviewed for the coming year, taking into account market conditions and internal and external factors. Any amendments to the overall strategy are agreed by the Head of Third Country Branch and the Deputy Chief Executive.

Risk strategy and tolerance

The Branch risk strategy sets out the tolerance for each risk and is expressed in terms of risk metrics. These are set by the Head of Third Country Branch and the Deputy Chief Executive to define the risk profile that the business must operate to.

Detailed business planning exercise

Detailed business planning by class is conducted to refresh the three-year business plan. The next year of business is planned in detail with higher level versions for years two and three. The capital ratio for each class of business is expressed as a percentage of premium (gross of reinsurance and net of acquisition costs) and sets out the capital required based on the plan.

Detailed Outward Reinsurance planning

After the overall business plan is set, detailed planning of the outwards reinsurance to be purchased is conducted. This is considered on an entity basis by the Head of Third Country Branch, Deputy Chief Executive and Treaty underwriter to manage net risk and to optimise profitability and return on capital. The Branch enhances its risk mitigation insurance programme thereby covering risks by the lines of business and distribution channels. There are different RI programmes bought with different retention limits, which are reviewed periodically by Head of Third Country Branch and Deputy Chief Executive.

Detailed investment planning

Investment planning is reviewed by the Head of Third Country Branch and Deputy Chief Executive. The asset mix is managed within the constraints set out to maximise return on capital in line with the approved risk appetite.

Assessment and ongoing compliance of technical provisions

The reserving process is run at least annually and includes the calculation of Solvency II technical provisions.

The Branch has outsourced the calculation of technical provisions to an independent consultant, Mazars, with whom the assigned Actuarial Function resides. Mazars review the data for internal consistency as part of the reserving/technical provision process, and the branch solvency is audited by Grant Thornton.

Reporting

The ORSA Process is forward looking and therefore an essential input into the production and revision of the strategic direction and business planning for NIA - UK.

The adequacy of capital available is reported by the Finance team to the Head of Third Country Branch and Deputy Chief Executive.

The annual ORSA report builds on this information and summarises annual risk management activity across the key business processes. The report is submitted to the regulator annually or as required by the regulator.

B.4 Internal Control Systems

B.4.1 Overview

The aim of NIA - UK's internal control system ("ICS") is to create a harmonised, comprehensive approach to risk control across all risk types with no overlaps and no gaps. The ICS focuses on effective identification, analysis and assessment, control, reporting and monitoring of all significant risks.

All risks are managed in the manner set out in the NIA - UK Risk Management Policy.

The Head of Third Country Branch and Deputy Chief Executive have ultimate responsibility for the governance, and hence risk management of the Branch. They, with the support of the Internal Audit function, have adopted the three lines of defence to carry out this responsibility as summarised in B.1.2.

B.5 Internal Audit Function

B.5.1 Overview

The internal audit function of NIA - UK was outsourced to PKF Littlejohn (PKF) LLP for 2018/19. Internal auditors independently and objectively reviewed the IT governance, security and controls during the year ended 31st March 2019, and objectively reviewed finance, governance and investment policies during the year ended 31st March 2018. The internal auditors operate in accordance with the NIA - UK Internal Audit Terms of Reference. This allows the Branch access to a wider array of skills to carry out audits of different parts of the business. The Internal Audit Terms of Reference contains the following information on the roles of the internal auditor:

Internal auditors are authorised to:

- Have unrestricted access to all functions, records, property, and personnel relevant to a review.
- Have full and free access to the Head of Third Country Branch and all Relevant Employees.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of NIA - UK where they perform audits, as well as other specialised services from within or outside NIA - UK.

Internal auditors are not authorised to:

- Perform any operational duties for NIA - UK or its affiliates.
- Initiate or approve accounting transactions outside of the internal auditing function.
- Direct the activities of any Branch employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- Have direct authority over, or responsibility for, any of the activities reviewed. Management retains full control over the implementation of Internal Audit recommendations.

During 2018/19 internal audit conducted a review of Branch IT controls, governance, security, and disaster recovery plans and the report has not identified any material breaches. The recommendations of this report do not demonstrate any critical findings or high-risk findings given the nature and scope of NIA – UK's operations.

Internal Audit provides the EMT with assurance based on the highest level of independence and objectivity within NIA - UK. This is a higher level of independence than is available in the second line of defence. Internal Audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives. The scope of this assurance, which is reported to the EMT includes:

- Assessing systems architecture is appropriate for the business, that system security is adequately robust and administered appropriately for the business and that network resources are deployed effectively and efficiently.
- Assessment that there are adequate procedures in place for identifying the key risks which threaten the continuing operations of the business and that there are plans in place which mitigate these risks in the event of a partial or complete disaster. We will also seek to confirm that all key IT systems are recoverable within the limits defined by the business, both in terms of recovery time and acceptable loss of data.
- Reviewing the consistency and effectiveness of IT governance, policies and procedures including systems and data security, susceptibility of IT systems to viruses and other malware, and recovery plans.
- A broad range of objectives including effectiveness of the Business Continuity Plan (BCP) and Disaster Recovery (DR) plan for the organisation and a review of the procedures to ensure it is regularly reviewed and updated; reviewing how risks are assessed and the analysis of the impact of these risks; review of how risks are mitigated where possible or proposed responses.

B.6 Actuarial Function

B.6.1 Overview

NIA – UK benefits from the support of the actuarial expertise provided by Mazars LLP (Mazars) for purposes of Solvency II regulatory capital requirements and the calculation of both UK GAAP reserves and Solvency II technical provisions.

The Mazars actuarial team is subject to professional standards set out by the Institute and Faculty of Actuaries (“IFoA”) and the Financial Reporting Council.

The actuarial function is kept free of external influence from the EMT, performing all regulated tasks as set out in Solvency 2 Directive: Article 48 and Delegated Acts: Article 272. The actuarial team naturally conduct many other tasks throughout the year. Many of these tasks further the knowledge and involvement of the actuarial team allowing them to fulfil the role of actuarial function more effectively.

The major responsibilities of the actuarial function include:

- Assessing the adequacy of the gross and net held reserves;
- In collaboration with the EMT, assessing the sufficiency and quality of the data used in the calculation of the technical provisions;
- Assisting in the preparation of various financial statements;
- Developing, maintaining, and implementing regulatory capital requirements;
- Providing an opinion on underwriting decisions and pricing; and
- Review of reinsurance arrangements.

B.6.2 Actuarial Contribution to Risk Management

The actuarial function is required to contribute to the effective implementation of the risk management system of NIA - UK, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

This naturally enables a high level of meaningful interaction between the actuarial function and the Head of Third Country Branch and Deputy Chief Executive. Risk management work is documented in an ORSA report which is produced annually. It is shared with the External Auditors and Internal Auditors.

The actuarial function is responsible for the recommendation of the technical provisions to the Head of Third Country Branch and Deputy Chief Executive. This is a key part of the overall governance and risk management framework.

Two aspects of NIA – UK’s risk management processes are materially dependent on the technical provisions work conducted by the actuarial function, the calculation of the SCR as well as the assessment of own funds in the Solvency II balance sheet.

B.7 Outsourcing

NIA - UK recognises that outsourcing is a key element of its business and that there are associated risks. The Outsourcing Risk Policy covers the NIA - UK’s approach and processes for outsourcing from the inception to the end of the contract.

Outsourced functions, services and activities are subject to the ICS framework in the same way as internal activities.

The way in which the requirements set out in the ICS framework are implemented in each area will vary depending on the type, size and complexity of the inherent risks.

B.7.1 Outsourced Functions

NIA - UK has outsourced the following key functions:

- Internal Audit function outsourced to PKF Littlejohn LLP
- Actuarial outsourced to Mazars LLP
- IT hardware maintenance, email servers and IT Security to Plan- IT
- Investment Management to Investec Wealth & Investment Limited

- Underwriting - of motor and home owners' insurances to MGAs
- Claims of direct business written at Ipswich Branch subject to set norms and controls as per the signed binding authority.

The purpose of Outsourcing Risk Policy is to ensure that all outsourcing arrangements involving any material business activities entered into by NIA - UK are subject to appropriate due diligence, formal approval and on-going monitoring and oversight. The EMT is satisfied the outsourced functions do not materially increase risk to the Branch or materially adversely affect its ability to manage its risks and meet its legal and regulatory obligations.

Although outsourcing may result in day-to-day responsibility for a business activity resting with the service provider, NIA - UK remain fully responsible for discharging their respective regulatory and legal requirements and having effective processes to identify, manage, monitor and report risks and maintain robust internal control mechanisms.

Where a key function is outsourced, a NIA - UK employee with overall responsibility, sufficient knowledge and experience is identified to manage the outsourced function and challenge the performance and results of the service provider.

B.8 Any other information

There is no other information to disclose under this heading.

C. Risk Profile

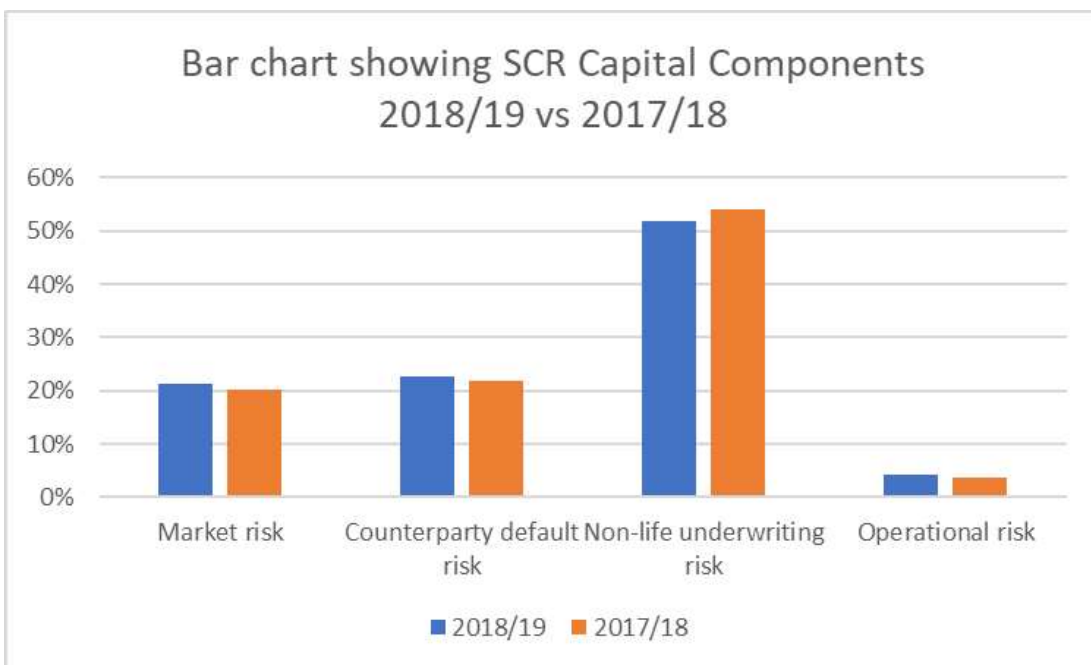
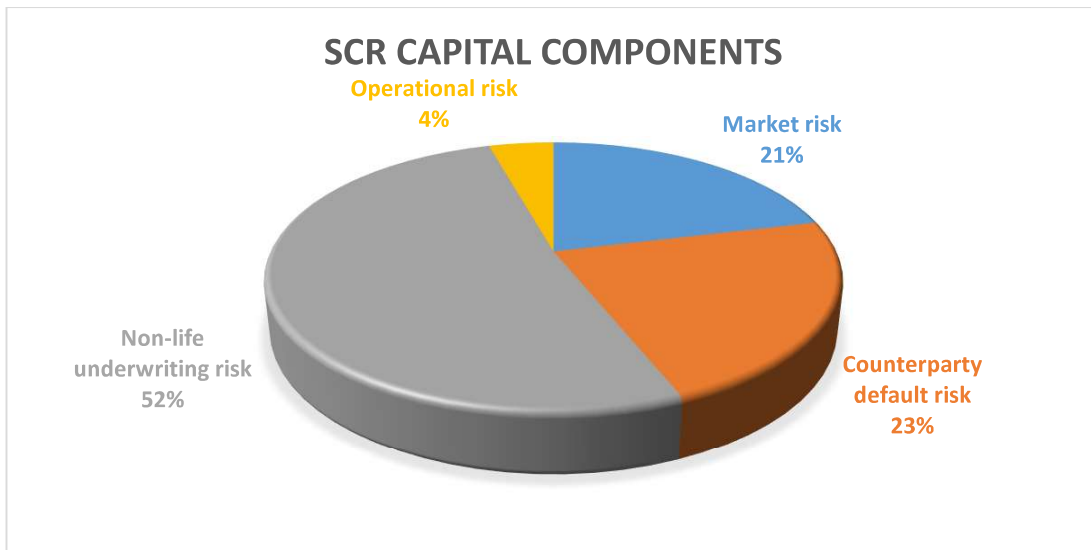
NIA – UK’s risk appetite is set to medium to low risk when determining the acceptability and management approach to risk.

NIA - UK will only accept risks appropriate to the scale of its balance sheet and its business objectives within their risk appetite strategy.

NIA - UK continues to manage its business in a sensible, considered, and common-sense manner whilst taking considered and appropriate risks to develop the business and compete successfully against other insurers. Whilst risks to develop the business are necessary, NIA – UK does not take unnecessary or poorly judged risks which are not fully understood by senior management. NIA - UK will therefore act with necessary prudence in its business activities and approach.

Key risks for NIA - UK are direct (and reinsurance) underwriting risks, counterparty, catastrophe and currency risks. All of these risks are currently within NIA – UK’s defined risk appetite.

The composition of key material financial risk categories NIA – UK is exposed to is provided in the capital break down below.



Additional non-financial risks (such as IT / cyber risk, reputational risk, strategic risk) are assessed as part of risk management processes.

NIA - UK has developed and continued to enhance its risk appetite in line with its business strategy during 2018/19.

The risk appetite statements are defined by the Head of Third Country Branch and the Deputy Chief Executive to set limits on the amount of risk NIA - UK should accept or tolerate during its daily business activities. The risk appetite is directly linked to business strategy and the principal risks to which NIA - UK is exposed. Any changes to business strategy as a result of the strategic review will be reflected in the risk appetite statements as necessary over the planning period. These will be a mixture of quantitative and qualitative measures.

The current risk appetite of NIA – UK is shown below with overarching goals maintaining moderate growth subject to the following categorised risk tolerances detailed below:

Risk Category	Risk Appetite
Non-life underwriting risk	To maintain growth of GWP between 10-15% per year and to ensure that the combined ratio shall not exceed 95%
Reinsurance risk	Ensure 100% of RI treaty orders are placed by the renewal period, with A-rated reinsurance counterparties, or as specifically agreed by CEO
Counterparty risk	Monitor any divergence from sovereign credit ratings with a view to maintain at least BBB rated counterparties (deposits with banks)
Investment risk	To receive an annual return of 2-3% consistent with an acceptable level of risk as defined in the risk appetite statement
Liquidity risk	Cash available within 10 days from investments and bank deposits/balances to cover 3 months of claims/management costs, and ensure 75% of its assets are in immediately realisable/readily tradable investments and bank balances
Credit risk	Ensure broker payments are recovered within the credit period (up to 90 days) agreed in a timely manner, and to continue to monitor receivables on a monthly basis.
Reserve risk	Always hold adequate reserves in liquid funds to cover the best estimate of unpaid claim liabilities at any point in time.
Solvency ratio	Targeted solvency ratio in excess of 100%
Reputational Risk	No appetite for Reputational risk
Regulatory Risk	No appetite for Regulatory risk

C.1 Underwriting Risk

Non-Life Underwriting Risk (£000's)	2018/19	2017/18
SCR Non-Life Prem/Res Risk	62,279	47,714
SCR Non-Life Cat Risk	30,168	46,858
SCR Non-Life Lapse Risk	2,234	2,729
Sub total	94,681	97,301
Less Diversification	18,963	22,484
SCR Non-Life Risk	75,718	74,817

NIA – UK aims to maintain small growth of GWP between 10-15% per year and to ensure that the combined ratio on net earned basis shall not exceed 95%.

NIA – UK aims to maintain small growth of GWP, having completed growth of 7% in 2018/19 compared to the year before. During the year NIA – UK removed quota share arrangements with two direct portfolio MGA partners, this meant that NIA – UK retained a larger portion of claims which fell due during the year, this resulted in a combined ratio of 120.6% for 2018/19 (this was also due to exposure to catastrophe events, large risk losses, and increases in attritional claims). NIA – UK strategically controlled premium growth for the prior period, in light of taking a larger share of risk on our direct portfolio. For the year 2019/20 NIA – UK will target small premium growth between 10-15% taking into account developments in the reinsurance market, and to ensure that the combined ratio on a net earned basis should not exceed 95%.

Further details can be seen in section D and E of this report.

The Branch achieves this by maintaining a clear underwriting philosophy that is supported by risk appetites set at the aggregate level as well as individual class and per risk, procedures and controls in relation to pricing, rigorous risk selection criteria and the ability to underwrite a diverse range of risks across multiple classes and geographies. The Branch's main risk concentration relates to natural catastrophe exposure in Northern Europe (including UK).

Non-life risk

NIA – UK assesses these risks by having in place ongoing monitoring and exposure management, assessing individual and aggregate exposures. Exposures are assessed and tracked against risk tolerances and against a range of extreme events and stress tests. Furthermore, ongoing reviews of underwriting activities, including quarterly underwriting performance reviews, pricing adequacy reviews and rate monitoring supplement the oversight framework.

The insurance portfolios of NIA - UK are analysed and managed in order to maintain the most accurate and up to date information regarding asset and liability exposures, in particular with a focus on receiving suitable data to value the future premiums and technical provisions. This analysis enables efficient planning and successful implementation of relevant management actions when needed to value and control the exposures.

The Non-Life Standard Formula for NIA - UK allows for risk mitigation through reinsurance and retrocession programmes. Key features of the reinsurance programme are mentioned below.

- NIA - UK has an enhanced risk mitigation insurance programme which covers risks by the lines of business and distribution channels. There are different reinsurance programmes for the direct business each with different retention limits.
- The Retrocession treaties operate in different territories covering the exposure due to Facultative and Treaty business written worldwide.

Current oversight, monitoring and executive controls

Underwriting risk is monitored based on various policies and procedures related to insurance underwriting, reserving and claims. Executive management oversight of controls is achieved via assessment of controls such as:

- Monitoring of attrition rates, conversion rates, retention rates for reinsurance business - both policy numbers and premium
- Monitoring of target price realisation ratios
- Volatility in insurance portfolio, deterioration in performance of the account to be analysed for pricing adequacy
- Reinsurance business - principles for lead/follow pricing defined and documented
- Determining factors, considerations for discretionary decisions etc to be included in underwriting - pricing policy
- Actuarial assessment of the adequacy of claims reserves including claims reported/not yet reported to ensure adequate reserves and capital for insurance portfolio and insurance risk management
- Variations from the business plan are analysed and monitored to mitigate the effect of fluctuations against plan
- Review and monitoring of outstanding claims
- Large loss management review
- Reinsurance recoveries follow-up

C.2 Market Risk

Market risk refers to the uncertainties arising from market movements a branch may be exposed to in relation to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets.

The Market risks that the branch believes it is exposed to are recorded in the Risk Register, and include risks relating to:

- Changes in interest rates which cause the value of future unpaid liabilities to increase, or for the value of assets held (subject to interest rate risk) to decrease. For NIA – UK this is largely due to the value future unpaid claims increasing as most assets are held in fixed deposits;
- Changes in the value of financial market instruments (such as bonds and other financial instruments) including those resulting from changes in credit spreads, and
- Exchange rate movements.

The Branch's market risk exposure for 2018/19 is indicated below:

Market Risk (£000's)	2018/19	2017/18
SCR Interest Rate	1,928	1,432
SCR Spread	109	109
SCR Equities	-	-
SCR Currency	29,550	27,693
SCR Property	-	-
SCR Concentration	78	101
SCR Countercyclical	-	-
Sub total	31,665	29,335
Less Diversification	1,544	1,220
SCR Market Risk	30,121	28,115

Currency risk remains the largest market risk exposure, which is actively monitored with the aim of matching assets and liabilities in respective currencies. Currency risk arises for NIA – UK as reinsurance business is transacted in many underlying currencies, when premiums are received they are converted

by our bank counterparties to either GBP, EUR, USD at the prevailing exchange rate on that day. When claims are paid at a later date, these same currencies are converted back to the currency in which the policyholder purchased a reinsurance contract in order to settle the liability. This gives rise to exchange gains and losses depending on global rates as liabilities fall due, and the currency risk arises where there is a mismatch of assets and liabilities in underlying transaction currencies.

NIA - UK holds significant assets in money market instruments with no exposure to market value volatility albeit subject to credit risk which is monitored by NIA – UK.

The money market instruments are cash accounts with the majority held in Indian banks based in the United Kingdom. These accounts are denominated in Sterling, Dollars and Euro with the purpose of paying claims in the required currency based on regional exposure shown in £000's.

Assets held in (£000's)	2018/19	2017/18	Change
Cash and Deposits	285,561	255,340	30,221
Government Bonds	3,665	3,512	153
Corporate Bonds	797	820	(23)
Total	290,023	259,673	30,350

NIA – UK's Investment Committee reviews, at least annually, the investment strategy which is based on four key principles:

1. Preservation of capital;
2. Increase surplus;
3. Maintain liquidity; and
4. Optimise after tax total return on investments, subject to (1) -(3) above.

NIA - UK considers market risk in conjunction with liquidity risks (Section C4 below) and has developed a strategy to ensure that the Branch can pay its liabilities, including day-to-day cash requirements. NIA - UK aims to achieve this objective by holding investment assets types with highly secured, good quality and liquid nature such as cash and high rated bonds, where appropriate, so that NIA - UK can minimise investment credit risks and liquidity risks and focus its risk management activities to risks resulting from the movements in interest rates and exchange rates.

NIA - UK also seeks to balance the objective of minimising liquidity risk with the objective of obtaining appropriate returns and asset mix given the liabilities. Note that NIA - UK does not create segregated portfolios for asset liability management. Instead NIA - UK aims to manage risks arising from assets and liabilities in a coordinated manner on the whole portfolio. Further objectives of the market risk strategy include managing and controlling risk accumulations within tolerable limits by following risk appetite statements, thereby protecting NIA - UK's capital base and avoiding excessive volatility of the Branch's profits.

Current oversight, monitoring and executive controls

Executive Management has executed the following monitoring controls regarding market risks

- Provisions are made for increases in inflation
- Investments in fixed deposits with regulated banks
- Investments in A+ rated corporate bonds and government gilts
- Not investing in equities
- Regular monitoring of changes in financial markets

C.3 Credit Risk

Credit risk is the risk of loss or of adverse change in NIA - UK's financial situation, resulting from fluctuations in the credit standing of counterparties and any debtors to which NIA - UK is exposed. It includes concentration risk where a significant reliance is placed on any counterparty (counterparty type 1 risk). For NIA – UK type I counterparties include banks and reinsurance counterparties, the increase in type I charge resulted from having more cash with banks for the period 2018/19 compared to 2017/18.

Credit risk is assumed whenever NIA - UK is exposed to a loss if another party fails to perform its financial obligations to NIA - UK, including the failure to perform them in a timely manner (counterparty type 2 risk). For NIA – UK type II counterparties relate to contractually overdue debtors, this charge increased due to a larger portion of contractually overdue debtors for the period 2018/19 compared to 2017/18.

Counterparty Risk (£000's)	2018/19	2017/18
SCR Counterparty Type 1	29,875	28,508
SCR Counterparty Type 2	3,824	2,503
Sub total	33,698	31,011
Less Diversification	858	581
SCR Counterparty Risk	32,840	30,431

Counterparties include cedants/brokers, reinsurers, bond issuers and banks with whom we keep our cash balances. There have been no material changes in these assessment measures or in the concentrations and mitigations over the reporting period.

NIA - UK maintains a diversified strategy resulting in the spread of funds over multiple banks and the process of monitoring and reporting cash position to the Head of Third Country Branch.

The Branch continues to seek to reduce counterparty risk by transferring cash from “BBB” rated banks to higher rated banks whilst meeting investment target.

Concentration Risk refers to the risk arising from a lack of diversification by being exposed too heavily to a single counterparty. NIA – UK has established a diversified portfolio in order to manage counterparty risk.

Current oversight, monitoring and executive controls

The Branch is exposed to the following credit risks:

- Risk related to reinsurance company insolvency (resulting in delayed or failed recoveries)
- Third party credit risk materialised due to non-performance of contractual payment obligations

The Branch has put the following controls in place to manage those risks:

- Proactive claims recovery process
- Regular review of credit ratings of counterparties
- Credit collection procedures including continuous follow-up with brokers
- Vetting of reinsurers and minimum credit rating requirements
- Funds are well spread and no collateral assets held.

C.4 Liquidity Risk

Liquidity risk refers to the risk that the Branch, although solvent, does not have sufficient financial resources available to meet its obligations when they fall due, or is able to meet its obligations only at an excessive cost.

As the majority of NIA - UK's assets are held in short term deposits, the EMT believes liquidity risk to be easily manageable. Liquidity risk monitoring and cash flow forecasting is a key management tool that is performed on an ongoing basis through monthly cash reports.

Stress and scenario testing

NIA – UK has carried out stress and scenario testing as part of its approach to managing liquidity risk. Results have been reviewed by the EMT. NIA - UK does not consider liquidity to be a material risk for the Branch.

Prudent person principle applied to liquidity risks

The investment assets are prudently invested taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities. NIA - UK manages its liquidity risk by maintaining a diversified liquid investment portfolio fit to its business model.

Expected profit included in future premiums

Expected profits included in future premiums (EPIFP) result where there is an expectation of future profit within technical provisions. As at 31st March 2019, the branch total EPIFP is nil, i.e. future claims plus expenses are greater than future premiums net of reinsurance within technical provisions.

C.5 Operational Risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including Legal, Strategic and Reputational risks.

The Operational risks that the Branch believes it is exposed to are recorded in the Risk Register. Not all of NIA - UK's risk exposures are included in the current capital calculation by holding capital. 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. Risks which are not considered in the capital calculation are not material.

Operational risk within NIA – UK considers amongst other risks the following key areas:

- Regulatory and legal risks - the risk of legal or regulatory sanctions or loss caused by a failure to comply with applicable laws, regulations, internal policy and standards of best practice;
- Financial crime, including internal and external fraud – this is the risk that the Branch might be used to further financial crime;
- Financial and accounting – these are the risks associated with financial reporting and integrity of the financial information;
- People risk – this is the risk that people do not follow NIA - UK's procedures, practices and/or rules, thus deviating from expected behaviour in a way that could damage the Branch;
- Business continuity management – the risk associated with the failure to appropriately manage unforeseen events;
- Cyber/ IT system failures;
- Model risk; - the risk that the output from the models used by NIA - UK is incorrect or flawed due to errors in the design or operation or management's failure to understand the limitations in the output of the models;
- Outsourcing; failures relating to the outsourcing of key activities; and
- External events and other changes; failure to react to changes in the external business environment.

Executive management identify the key risks, causes and consequences together with relevant mitigating controls, within their function/ span of control, on an ongoing basis.

The results of the assessment are recorded in NIA - UK's Risk Register and reviewed by EMT and the Compliance team.

NIA – UK maintains an Operational Risk policy that sets out the approach to mitigating risks arising from Operational Risks. NIA – UK has no appetite for behaviour at any level which could compromise the

effective operation of the business model, whether through inadequate or failed internal processes, failure of systems or poor capability of staff.

Key Controls

Key controls that aid in mitigating this risk include (but not limited to):

- Executive Management oversight;
- Policies and procedures;
- Service level agreements for outsourcing services; and
- Purchase of insurance; and
- Underwriting audits performed by internal audit.

NIA - UK does not have any material concentrations of operational risk.

C.6 Other Non-material Risks

Other non-material risks are as below:

C6.1 Emerging Risks

NIA - UK defines an emerging risk as a risk that is believed to have the potential to have a significant impact on the Branch and is newly developing or changing and hence, due to a lack of information, is difficult to quantify. As such, this emerging risk will not be allowed for in historical insurance terms and conditions, historical pricing, reserving and capital setting. These include:

- Underwriting and reserving risks, for example, new types of latent claim or new court rulings.
- Market Risk, for example severe global economic downturn.
- Liquidity Risk, for example as above.
- Operational risks, for example impact of developing regulatory framework e.g. new Prudential Regulatory Authority.

As new and emerging risks can come from a wide range of sources risk owners are assigned throughout NIA – UK. These risk owners are responsible for identification of new and emerging risks relevant to NIA – UK and to assess the implications to the business.

The risk owners maintain a watching brief on new and emerging risks throughout the year, which may include:

- Considering trends in the external environment.
- Attending industry discussion groups.
- Brainstorming sessions with the Risk Committee.
- NIA - UK staff and internal audit raising issues with the relevant risk owner.
- Via a review of qualitative reverse stress testing results, which helps determine additional key risks that would have a material impact on the business.

Once identified emerging risks are initially assessed to determine their significance to the business and stakeholders (both internal and external); potential impact and likelihood to materialise. In addition, the executive management team considers the assessment of correlations with other risks and in relation to NIA - UK's strategy and objectives. The scenario analyses performed will be based on the most severe but plausible worst cases NIA - UK could face and take into account any second order effects that may arise.

Any new or emerging risks are then tabled at the quarterly EMT meetings to ensure that all risks are captured and appropriate response strategies are put in place. Any new or relevant emerging risk is added to NIA - UK's Risk Register and, if applicable, the response strategy is recorded in the Risk Reduction Plan. NIA - UK can decide to accept the risk, monitor the risk or respond to it through

mitigation or leverage actions. The risk response depends on NIA - UK's risk appetite, impact of the risk assessment on NIA - UK's risk profile including any opportunity potential.

C.7 Any other information

As at 31st March 2019 NIA – UK have opened letters of credit (“LCs”) of £6.16m through Barclays and Bank of India against the fixed deposits held with Bank of India. These LCs were opened as required by the brokers while treaty claims having exposure at US territories were reported to NIA – UK. These LCs will be closed as and when the corresponding claims are settled by NIA – UK.

NIA – UK does not consider there is any other material information to disclose on its Risk Profile.

D. Valuation for Solvency Purposes

Solvency II Balance Sheet as at 31 March 2019

Basis of preparation

NIA - UK's Solvency II balance sheet is prepared as at 31st March 2019. The balance sheet is prepared in compliance with the Solvency II Regulations.

The preparation of the balance sheet in accordance with Solvency II requires the use of estimates and assumptions. It requires a degree of judgement in the application of Solvency II principles described below.

Valuation differences between the Solvency II and UK GAAP balance sheets.

Solvency II requires a hierarchy of valuation methods to be applied to value assets and liabilities on the Solvency II balance sheet, as set out below:

1. The use of quoted market prices in active markets for the same assets or liabilities.
2. Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, quoted market prices in active markets for similar assets and liabilities are used, with adjustments made to reflect factors specific to the asset or liability.
3. Where the criteria above are not satisfied, alternative valuation methods are used, which make maximum use of relevant market inputs (adjusted for factors specific to the asset or liability under valuation). To the extent that observable inputs are not available, use is made of unobservable inputs reflecting the assumptions that market participants would use (including assumptions about risk in the valuation technique).

NIA – UK considers its policy on the fair value of investments to be consistent with the hierarchy of valuation methods required for Solvency II.

NIA - UK's investment portfolio as at 31st March 2019 contains only investments that are valued at mark to market value. There are accordingly no differences in valuation relating to financial investments between NIA - UK's Solvency II and UK GAAP balance sheets, with the exception that the value of investments in the Solvency II balance sheet includes interest accrued since the last coupon payment, compared to the presentation in financial statements which is accounted for separately within accrued interest.

NIA - UK defines fair value as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants as at the measurement date, for bonds this would be the mark to market value.

Unless otherwise stated, the Branch's valuation principles have been consistently applied to all the periods presented.

The Solvency II balance sheet is presented in GBP, being the Branch's presentational currency. The Branch operates in the three main currencies of GBP/EUR/USD. All transactions in currencies different from GBP are translated into GBP at the actual rate prevailing on the date of transactions. Assets and liabilities resulting from transactions denominated in foreign currencies are translated at the local closing exchange rate.

For valuation of financial investments instruments, NIA – UK uses the investment manager, Investec Wealth & Investment Limited, although it maintains the responsibility that the methodology used, and information provided by the investment manager meets the objectives of fair value determination.

D.1 Assets

The table below summarises for each material class of assets, the value of the assets of the Branch according to Solvency II provisions together with the values of the assets recognized and valued on a Branch accounting basis as at 31st March 2019, shown in £000's.

	Solvency II value	Branch management accounts value	Difference between SII and UK GAAP
Assets	C0010	C0020	
Deferred acquisition costs	-	15,615	(15,615)
Deferred tax assets	3,513	-	3,513
Property, plant & equipment held for own use	99	99	-
Investments (other than assets held for index-linked and unit-linked contracts)	269,697	266,288	3,409
<i>Bonds</i>	4,462	4,410	53
<i>Government Bonds</i>	3,665	3,644	21
<i>Corporate Bonds</i>	797	766	31
<i>Deposits other than cash equivalents</i>	265,235	261,878	3,357
Reinsurance recoverables from:	52,256	74,439	(22,183)
<i>Non-life and health similar to non-life</i>	52,256	74,439	(22,183)
<i>Non-life excluding health</i>	52,256	74,439	(22,183)
Insurance and intermediaries receivables	4,249	59,449	(55,200)
Receivables (trade, not insurance)	3,276	3,276	-
Cash and cash equivalents	20,326	20,326	-
Any other assets, not elsewhere shown	303	3,713	(3,409)
Total assets	353,719	443,205	(89,486)

There is no structural mismatch between assets and liabilities. The line of business written by NIA - UK are predominantly short tailed. The assets held are invested in cash and bonds, which are generally accepted assets to back those liabilities. To any extent that currency and duration is mismatched, we believe it has been adequately assessed in the appropriate risk modules of standard formula. There are no relevant risk-mitigating techniques, such as derivatives, used by NIA - UK on asset-liability management. Further details of valuation differences between UK GAAP and Solvency II can be found in section E1.4.

D.1.1 Financial Assets

Basic financial assets, including trade and other receivables, cash and bank balances, bonds and similar debt instruments are recognised at fair value.

Financial assets are derecognised when:

- the contractual rights to the cash flows from the asset expire or are settled; or
- substantially all the risks and rewards of the ownership of the asset are transferred to another party; or
- control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

D.1.2 Deferred Acquisition Costs (DAC)

UK GAAP value of £15.6m of DAC is valued at nil as per SII guidelines.

D.1.3 Deferred Tax Assets

All of the differences between the Solvency II and GAAP balance sheets would give rise to a timing difference. After adjusting for the tax provision, the difference in the balance sheets is that the net assets under Solvency II are reduced by £20.7m for deferred tax purposes which, at 17%, gives rise to a deferred tax asset of £3.5m.

NIA – UK have posted an underwriting loss including investment income for the the year ended 31st March 2019. This was due to a combination of catastrophe events from Typhoons, large risk losses and an increase in attritional claims from UK motor. These losses were protected by comprehensive reinsurance programmes and large reinsurance recoverable assets are expected to be due back to NIA – UK.

It is also observed that the difference between budgeting by the Branch and the actual performance of the Branch is not significantly different, despite the influx of claims in the final quarter. The future business plans of the Branch are conservative and forecast a profit. As a result, the EMT consider it is probable there will be taxable profit to support the recognition of the deferred tax asset.

D.1.4 Fixed Assets (Property, Plant & Equipment)

Property, plant and equipment (£99k) is stated at cost less accumulated depreciation and impairment losses which is an approximation of market value.

D.1.5 Investments

Valuations are based on quoted prices that are readily and regularly available in an active market, hence valuation of these instruments does not entail a significant degree of judgment.

NIA – UK's main assets are held in deposit other than cash equivalents (£265.2m) followed by a significant amount in cash and cash equivalent (£20.3m). The Branch continues to deploy a conservative investment strategy with only £4.5m invested in fixed income instruments despite the agreed capacity to invest £25m in bonds and equities. Accrued interest of £3.4m related to fixed deposits and bonds (£53k for bonds) is included in the Solvency II market value, whereas this is shown separately for UK GAAP accounts.

NIA - UK has no investments in equities as we currently have no appetite for equity risk.

D.1.6 Reinsurance Recoverables

Standard actuarial techniques are used to model the best estimate liability gross of reinsurance, as well as the reinsurance recoverables resulting in a best estimate liability net of reinsurance ("BEL"). For the determination of recoverables from reinsurance contracts an adjustment is made for expected losses due to counterparty default through a reinsurance bad debt reserve. The valuation under Solvency II (£53.3m) results in a reduction of £22.2m of reinsurance assets compared to UK GAAP (£74.4m) valuation methods as at 31st March 2019, and is discussed further in this report in section D.2.

D.1.7 Insurance Receivables

Insurance receivables are recognised when due. These include amounts due from agents, brokers and insurance contract holders. Receivables are recognised at the amount expected to be received when due.

The presentation of (re)insurance receivables on the Solvency II balance sheet differs from Branch financial statements, since (re)insurance receivables for financial reporting purposes include accrued premiums which are included in Technical Provisions in the Solvency II Balance Sheet (£55.2m of insurance receivables are considered in the Technical Provisions, only contractually overdue items £4.2m are considered as (re)insurance receivables). For further details please see section D.2.

D.1.8 Receivables (trade not insurance)

There are no material differences between the bases, methods and main assumptions used by the Branch for the valuation of other assets for solvency purposes and those used for their valuation in financial statements.

D.1.9 Lease Assets

There are no lease assets.

D.1.10 Valuation of Participations

The Branch owns no subsidiary companies or participations.

D.1.11 Any other assets not elsewhere shown

Accrued interest of £3.4m is removed from UK GAAP assets and included within the market value of fixed deposits and bonds for Solvency II.

D.2 Technical Provisions

General Principles

NIA - UK holds technical provisions to represent the current amount a (re)insurer would have to pay to transfer of its obligations to another (re)insurer. This therefore represents the amount of money we would hold in reserve for claims and premiums for policies. The technical provisions are comprised of two key elements: the best estimate liability and the risk margin.

The best estimate liability corresponds to the probability-weighted average of future cash flows including policyholder's benefit payments, expenses, and premiums related to existing insurance and reinsurance contracts taking into account the time value of money (i.e. by discounting these future cash flows to present value). The calculation of the best estimate liability is based upon up-to-date reliable information and realistic assumptions. The cash-flow projection used in the calculation includes all the cash in- and out-flows required to settle the insurance and reinsurance obligations over their lifetime, whilst taking into account all bound but not incepted business ("BBNI") as at 31st March 2019, and legally obliged reinsurance contracts in effect between 31st March 2018 and 2019.

The best estimate liability gross of reinsurance is modelled, as well as the reinsurance recoverables resulting in a best estimate liability net of reinsurance ("BEL"). For the determination of recoverables from reinsurance contracts an adjustment is made for expected losses due to counterparty default through a reinsurance bad debt reserve. The best estimate liability is calculated using standard actuarial methodology with method selection varying according to class of business, loss category and age of development. The two key assumptions feeding into the BEL outputs are the development pattern and initial expected loss ratio ("IELR"). Consideration is given to adding in further loads for Events Not in Data ("ENIDs").

Each class of business is considered separately with each class being segregated into homogeneous risk groups with projections carried out in respect of each class to consider all cash in-flows and out-flows discounted as at the year end. The risk margin is defined as the cost of non-hedgeable risk, i.e. a

margin in addition to the expected present value of liability cash flows required to manage the business on the basis of transferring the liabilities to a willing buyer in an arms' length transaction. It is deemed to be the present value of the cost of future economic capital requirements for non-hedgeable risks.

The risk margin represents an allowance for the cost of capital necessary to support the policies NIA - UK is obligated to at the valuation date over their lifetime. It is calculated by taking 6% of future capital requirements attributable to the policies and discounting back to the relevant balance sheet date using risk free discount rates.

The cost of capital is a premium over the risk-free rate that represents the reduction in economic "value" (cost) linked to the risks considered.

The preparation of NIA – UK Solvency II Technical Provisions has been undertaken by Mazars LLP in accordance with the applicable principles of Technical Actuarial Standards (“TAS”) 100 and TAS 200 as issued by the Financial Reporting Council.

Technical Provisions split by Solvency II class

A breakdown of the Technical Provisions, split by Solvency II reporting class is given below, shown in £000's.

SII Line of business (£000's)	Gross Best Estimate	Risk Margin
Motor Vehicle Liability Insurance	58,939	2,900
Other Motor Insurance	1,624	80
Proportional Fire & Other Damage to Property	31,369	1,543
General Liability Insurance	30,881	1,519
Non Proportional Property Reinsurance	83,138	4,090
Total	205,950	10,133

The best estimates are calculated at reserving classes as per UK GAAP, we have used appropriate assumptions and methodologies to derive the best estimate. The reserves are then mapped into Solvency II classes. The bases, assumptions and methodologies used by UK GAAP and Solvency II valuations are consistent with each other.

The Motor Vehicle Liability, Other Motor Insurance and General Liability Insurance classes of business directly map to the UK GAAP reserving classes and are all in GBP as they relate to the Ipswich business.

The motor premiums have to be split for reporting purposes and the premiums are allocated in line with ultimate claim amounts for liability and own damage components.

Ipswich Property maps directly into Proportional Fire & Other Damage to Property and is also all in GBP.

London Direct, Facultative and Treaty have been split between the two Solvency II classes; Proportional Fire & Other Damage to Property and Non-Proportional Property. The allocation is based on the proportion of the outstanding reserves.

The London business has also been split by currency. For the claims provision, the split is based on the proportion of each currency of the outstanding reserves for case reserves; the IBNR split is based on the proportion of each currency by gross earned premium. For the premium provision, the split is based on the proportion of each currency of the gross unearned premium.

Although both insurance and reinsurance business are underwritten, there are no dependencies between these classes.

The base methodology for calculating the losses on earned exposure is the same as is carried out for UK GAAP calculations.

The losses on the unearned exposure are calculated by using the UK GAAP ultimate loss ratios (by reserving class) on the earned business. For the London business, we also allow for an average loss ratio for potential Catastrophe claims. This approach is in line with the approach used last year.

Bound but not incepted (“BBNI”) business has been projected in line with the most recent underwriting/accident year GAAP loss ratios for London/Ipswich business respectively.

Future reinsurance costs have been allowed for in terms of recoveries and premiums/costs to be paid. This has been allocated to GAAP reserving class and then converted to Solvency II class in line with other items above. This approach is in line with the approach used last year.

Another area in which the technical provisions deviate from the GAAP provisions is in the inclusion of a provision for events not in the data (“ENID”). This is calculated using a truncated log-normal distribution based on number of exposure years, which was judgmentally selected for each Solvency II line of business. The same methodology was used last year.

The Solvency II expenses are derived from historic expense figures. An expense amount was taken forward as an annual provision and scales down in line with the run off of the claims reserves. As last year, this year the expenses assumption only includes the costs related to the run off of all the policies already bounded as at 31 March 2019.

The risk margin was calculated in line with the principles described earlier. The allocation by line of business was calculated by allocating the risk margin in line with the Best Estimate of Liabilities. The same methodology was used last year.

Technical Provisions are all Non-life. There are no Life Technical Provisions relating to Periodic Payment Orders or “PPOs”. The table below summarises the Branch’s liabilities under Solvency II as at 31 March 2019, shown in £000’s:

	Solvency II value	Branch management accounts value	Difference between SII and UK GAAP
	C0010	C0020	
Liabilities			
Technical provisions - non-life	216,083	274,549	(58,466)
<i>Technical provisions - non-life (excluding health)</i>	216,083	274,549	(58,466)
<i>Best Estimate</i>	205,950	-	205,950
<i>Risk margin</i>	10,133	-	10,133
Insurance & intermediaries payables	-	13,870	(13,870)
Payables (trade, not insurance)	6,105	6,105	-
Total liabilities	222,188	294,524	(72,336)

Uncertainty Associated with the Value of Technical Provision

The main sources of uncertainty in the valuation of the technical provisions are around the assumptions used for:

- Uncertainty on the claims performance (both number and severity). From the UK GAAP reserve review we estimated, using traditional stochastic reserving techniques, that the 75th percentile reserves lied circa 18% above the gross best estimate reserves and 17% above the net best estimate reserves; and
- Uncertainty on the level of expenses.

The assumptions are the best estimate assumptions based on the Branch’s own experience. Although NIA – UK has more than 10 years of experience, the data only includes the limited outcomes of the underlying distribution. Therefore, there are possible events that have not been experienced by the Branch and thus cannot be captured for the analysis.

Specific uncertainties include:

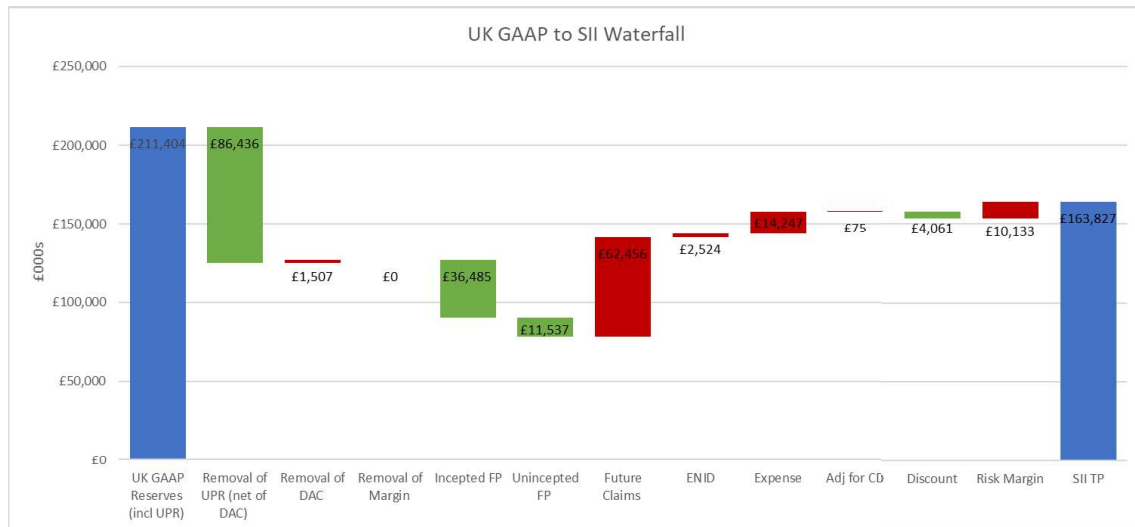
- Owing to current weak underwriting conditions in many lines, it should be understood that the potential for adverse development in our projections for the most recent underwriting years could be higher than at times of strengthening rates and terms and conditions. Whilst consideration has been given to the expected effect of rate changes on IELR selections,

unadvised or unanticipated effects due to weakening terms and conditions could lead to adverse reserve movements in future years as the reserves mature.

- An explicit assumption for future claims inflation has not been made. The projection methods that have been selected implicitly assume that historical trends will persist in the future. As there has been a sustained period of relatively low inflation, downside risks from unanticipated increase in inflation may be higher than historically expected.
- There is the potential for late development of large bodily injury claims on the Motor Vehicle Liability lines of business.
- The expected Ogden rate change has been considered for motor and liability lines of business.
- An ENID allowance has been applied by taking into account the nature of the portfolio, in reality, losses arising from events not previously seen before are by definition uncertain and could fluctuate significantly.

The UK GAAP reserves are adjusted in the following manner to convert to a net Solvency II basis as at 31st March 2019:

Waterfall chart mapping net technical provisions under UK GAAP to net technical provisions on a Solvency II basis, shown in £000's:



The chart explains the conversion from a GAAP basis to the Solvency II basis. The main differences are as follows:

- Unearned premium reserve of £84.9m (i.e. £86.4m - £1.5m in above chart) is deducted from the UK GAAP reserve.
- £48.0m credit for future premium receipts from premiums written at the valuation date. Of which £11.5m are related to BBNI.
- £62.5m has been included to allow for the premium provision on claims which incorporates the losses on unearned exposures.
- A £2.5m loading to the best estimate to allow for ENIDs. This is calculated using a truncated log-normal distribution based on number of exposure years, which was judgmentally selected, taking into account that the nature of the portfolio is believed to be reasonable
- £14.2m allowance for expected management, acquisition and claims handling expenses (Solvency II expenses) to settle implied claim obligations (including in respect of unearned business).
- £0.08m allowance is made for credit risks in respect of counterparty default through a reinsurance bad debt reserve.
- £4.1m adjustment made to the net Technical Provisions in respect of discounting. All cashflows are discounted back to the valuation date using published discount curves as at 31st March 2019 published by EIOPA.

- A risk margin of £10.1m is added. This is intended to be equal to the amount of funds over the best estimate technical provisions required by a knowledgeable third party to assume the insurance obligations of an undertaking in an arm's length transaction because of the uncertainty affecting the cashflows.

Other notes regarding the Technical Provisions

The following are not applied by the Branch:

- The volatility adjustment referred to in Article 77d of the Directive;
- The transitional risk-free interest rate-term structure referred to in Article 308c of the Directive; and
- The transitional deduction referred to in Article 308d of the Directive.

D.3 Other Liabilities

There are no material differences between the bases, methods and main assumptions used by the Branch for the valuation of other liabilities for solvency purposes and those used for their valuation in financial statements.

D.3.1 Insurance Payables

Insurance payables are recognised when due. These include amounts due to agents, brokers and insurance contract holders. Payables are recognised at the amount expected to be paid when due.

The presentation of (re)insurance payables on the Solvency II balance sheet differs from Branch financial statements, since (re)insurance payables for financial reporting purposes include claims which are included in Technical Provisions in the Solvency II Balance Sheet. For further details please see section D.2.

D.3.2 Payables (trade not insurance)

There are no material differences between the bases, methods and main assumptions used by the Branch for the valuation of other liabilities for solvency purposes and those used for their valuation in financial statements.

D.4 Alternative Valuation Methods

There were no alternative methods required or considered for the valuation of the Branch's assets or liabilities.

D.5 Any other information

There is no other material information to be disclosed regarding the valuation of the Branch's assets and liabilities for solvency purposes.

Contingent Liabilities

Contingent liabilities are:

- Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or
- A present obligation that arises from past events, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Under Solvency II, contingent liabilities that are material are recognised as liabilities, unlike FRS 102 where they are only disclosed. Contingent liabilities are material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgment of the intended user of that information, including the supervisory authorities.

As at 31st March 2019, NIA – UK holds letters of credit to the tune of £6.16m discussed in section C.7.

E. Capital Management

The PRA Rulebook describes the different categories of capital available to a branch and the valuation of that capital for solvency purposes.

With the exception of the deferred tax asset, NIA - UK's own funds is "Core Tier One" and as such is fully admissible. If the Branch was to source capital in instruments other than Core Tier One, then this would need prior approval from NIA - India.

The Branch's admissible capital is then subject to adjustments to reflect any solvency valuation requirements in respect of the Branch's underlying assets and liabilities.

The Branch's capital is comprised of a Long Term Inter Branch Funding Account and Retained Earnings. There are other sources of capital available to the Branch which include:

- Capital injection from NIA – India (e.g. capital contribution);
- Contingent capital from NIA - India

The Branch has a variety of working capital management options available, including:

- Reinsurance purchased either from a third party or intergroup;
- Credit facilities on a stand-alone basis or supported by a parental guarantee.

NIA – UK has additional risk mitigation techniques which can be employed to manage emerging risks, including:

- NIA – UK monitors the credit ratings of all counterparties during the year, to ensure that counterparty exposures remain within current risk tolerance. NIA – UK seek to maintain counterparty under control by selecting counterparties with credit ratings of A- and above where possible.
- Risk appetite is controlled by monitoring types of business written against risk-based capital requirements during the process of Own Risk and Solvency Assessment (ORSA) and underwriting is controlled within NIA – UK tolerance against available capital.
- NIA – UK conduct business in three predominant currencies GBP, USD and EUR, and have large deposits in each to maintain liquidity to meet policyholder liabilities when they fall due. This can expose NIA – UK to fluctuations in the value of cash deposits held, NIA – UK manage these risks by actively matching assets to liabilities currency wise during the course of business.

E.1 Own Funds

The Branch has a Capital Management Policy and a Medium-Term Capital Management Plan which outline the overall aim and approach to be taken for capital management, together with the standards and parameters which must be adhered to and reporting requirements and responsibilities.

The objective is to ensure that the Branch has sufficient capital resources to remain solvent on both a regulatory basis (Solvency II Pillar I) and an economic basis (Solvency II Pillar II).

The capital projections shown in the ORSA over the 3-year business planning period facilitate Executive discussion on the capital requirements for the Branch.

There have not been any material changes to the capital management policy or processes during 2018/19, shown in £000's:

Description	31/03/2019	31/03/2018
Total Assets	353,719	333,656
Total Liabilities	222,188	182,651
Basic Own Funds	131,531	151,005
SCR	114,992	110,299
MCR	33,888	27,575
Ratio of Eligible own funds to SCR	114.4%	136.9%
Ratio of Eligible own funds to MCR*	377.8%	539.7%

* Ratio of eligible own funds compared to MCR exclude deferred tax assets.

The capital base increased as a result of increasing cash balances during the year, however technical provisions had increased compared to 2017/18 resulting in valuation of branch liabilities, whilst SCR increased. See section E.2.1 for further details.

E1.1 Capital Structure

With the exception of the deferred tax asset, the Branch's own funds are classified as Tier 1 high quality unrestricted capital, i.e. assets which are free from any foreseeable liabilities and are available to absorb losses due to adverse business fluctuations on a going-concern basis and in the case of winding-up. This has been the position over the whole of 2018/19.

E1.2 Own Funds

NIA - UK will hold capital that is at least equal to 100% of the economic capital of the Branch.

Where the regulatory capital ratios exceed the risk measures in the Risk Appetite and Risk Tolerance/Limit Policy, this will be notified to the Executive along with any mitigation plans proposed by the Deputy Chief Executive.

NIA – UK is not authorised to issue share capital. Additional funds can be provided from NIA – India if there is solvency requirement of NIA – UK.

The Branch's economic capital model will be updated at least quarterly including scenarios that stress test that capital.

Where the economic capital requirement exceeds the risk measures in the Risk Appetite and Risk Tolerance/Limits Policy, the Deputy Chief Executive will present any proposed capital/working capital changes to the EMT.

Tier 3 The own fund items classified as Tier 3 for NIA – UK consist of the deferred tax asset.

E1.3 Tiering of Capital

With the exception of the deferred tax asset, all of the Branch's own funds are classified as Tier 1 high quality unrestricted capital, i.e. assets which are free from any foreseeable liabilities and are available to absorb losses due to adverse business fluctuations on a going-concern basis and in the case of winding-up. This has been the position over the whole of 2018/19.

Tier One capital issuance requires prior approval by the Executive in conjunction with ratification by NIA - India.

E1.4 Reconciliation to UK GAAP

Below is an explanation of material differences between NIA - UK's financial statements and the excess of assets over liabilities as calculated for Solvency II purposes:

2018/19	£'000's	Explanation	Section
UK GAAP Net Assets	148,681		
Change in:			
Net DAC	(15,615)	Valued at nil under Solvency II	D.1.2
Reinsurance recoverables	(22,183)	Moved to Technical Provisions	D.1.6
Insurance receivables	(55,200)	Moved to Technical Provisions	D.1.7
Insurance & intermediaries payables	13,870	Moved to Technical Provisions	D.2
Technical provisions (Best Estimate Liabilities)	48,333	Change in valuation between UK GAAP and SII Technical Provision	D.2
Risk Margin	10,133	Value of SII risk margin (valued at nil under UK GAAP)	D.2
Deferred Tax Asset	3,513	Recognised as Tier 3 in Own Funds	D.1.3
Solvency II Net Assets	131,531		

E.2 Solvency Capital Requirement and Minimum Capital Requirement

General Principles

The Solvency II directive provides for two separate levels of solvency margin: (i) the Minimum Capital Requirement (MCR), which is the amount of own funds below which policy holders and beneficiaries are exposed to an unacceptable level of risk should the Branch be allowed to continue its operations, and (ii) the Solvency Capital Requirement (SCR), which corresponds to a level of eligible own funds that enables insurance and reinsurance companies to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made.

E2.1 SCR

SCR components by risk type

The SCR risk module components using the Standard Formula approach as at 31st March 2019 are as follows:

SCR (£000's)	2018/19	2017/18
Market risk	30,121	28,115
Counterparty default risk	32,840	30,431
Non-life underwriting risk	75,718	74,817
Less Diversification	(29,865)	(28,147)
Basic Solvency Capital Requirement	108,813	105,216
Operational risk	6,179	5,083
Solvency Capital Requirement	114,992	110,299
Minimum Capital Requirement	33,888	27,575

The final amount of the SCR is still subject to supervisory assessment. In any case, the PRA do not require the entities in its jurisdiction to disclose the capital add-on during a transitional period.

The movements in the SCR has been small at the risk module level, however, within the Non-life underwriting risk module, there is an increase in the premium & reserve risk, which is offset by a decrease in the catastrophe risk.

The increase in the premium & reserve risk is in line with the increase in the SII technical provisions. The decrease in the catastrophe risk is largely driven by a more refined modelling of the risk mitigation for UK flood risk. Further details of underwriting risks can be found in section C.1

Market risks increased due to a larger asset base as did counterparty risks. Increases to market risk are discussed in section C.2, and increases to counterparty risks are discussed in section C.3.

Operational risks arise due to increases in premiums and technical provisions, these are discussed in section C.5.

E2.2 MCR

The Minimum Capital Requirement is meant to ensure a minimum level below which the amount of financial resources should not fall. That amount is calculated in accordance with a simple formula, which is subject to a defined floor and cap based on the Solvency Capital Requirement of the Branch in order to allow for an escalating ladder of supervisory intervention, and that it is based on the data which can be audited.

For non-life entities, the Minimum Capital Requirement uses a factor-based formula taking into consideration the amounts of Best Estimate Liabilities net of the amounts recoverable from reinsurance contracts and special purpose vehicles, and written premiums for each line of business. Different factors are applied to those amounts according to each relevant line.

The MCR is restricted by a cap and a floor, being 45% and 25% of the SCR respectively, with an absolute floor of €3.7m (Euros).

E2.3 Simplifications

Operational Risk

The actuarial model makes no assumptions or judgements for the calculation of the operational risk charge and the BSCR.

Gross Technical Provisions

- Cash flow projection used in the calculation of the best estimate adheres to cash flows outlined in article 28.
- Technical provisions paid on a uniform basis across the year and are therefore on average the payment will be made mid-way through the year. We therefore discount accordingly.

Reinsurance Recoveries

- The average loss resulting from a default of a counterparty is assumed to be 50% which adheres to Article 42.
- Counterparty probability of default for each credit quality step is in line with article 199.
- Credit bond ratings are used to provide the probability of default for a reinsurer.
- Ceded expenses assumed to be zero.

Risk Margin

- The risk margin calculation is only intended to estimate the risk margin for non-life business as per the Delegated Acts.
- We have applied simplified approach outlined by Article 58 of the Delegated Acts. The user is responsible for ensuring that the simplified approach is appropriate for their business.
- Catastrophe risk charge does not extend past the first year i.e. payment for everything is due within 1 year as policies are assumed to be 1 year, and therefore future year risk margin does not include catastrophe risk.
- Lapse risk charge does not extend past the first year i.e. payment for everything is due within 1 year as policies are assumed to be 1 year, and therefore future year risk margin does not include lapse rise.
- When multiplied by a factor, the gross technical provisions become valued as at end of year, and therefore the operational risk charge is discounted correctly.

- Risk margin assumes one year off on unearned premium reserve.
- Risk margin for premium and reserve risk is calculated using the volume measure for the reserve risk but for premium risk it is based on the unearned premium only, that is the Premium Risk Volume measure used for the calculation of the risk margin is the unearned premium. It is assumed that the risk-taker could justify a premium risk charge based on the unearned business. Please note that the SCR non-life is calculated using the full premium definition under the Delegated Acts when not calculated for the risk margin.
- Technical provisions paid on a uniform basis across the year and are therefore on average the payment will be made mid-way through the year. We therefore discount accordingly.
- Future year risk charges adhere to the level 3 simplification of the risk margin whereby the whole SCR for each future year is approximated by using a proportional approach: CEIOPS-DOC-72-10 Section 3.276(3).
- Operational Risk: 30% of BSCR will always be larger than the basic capital requirement for operational risk charge, and therefore the formula in Article 204(1) is not included in the calculation in the model. Operational risk calculation will always be smaller. The model also assumes that the technical provisions are a more appropriate measure of the operational risk, in the context of the risk margin, than the earned premiums.
- Solvency capital requirement for future years: Catastrophe risk charge does not extend past the first year i.e. payment for everything is due within 1 year as policies are assumed to be 1 year, and therefore future year risk margin does not include catastrophe risk.
- Lapse risk charge does not extend past the first year i.e. payment for everything is due within 1 year as policies are assumed to be 1 year, and therefore future year risk margin does not include lapse risk.

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

This is not applicable for NIA - UK.

E.4 Differences between Standard Formula and any Internal Model used

NIA - UK does not operate an approved Internal Model.

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

The Branch has complied with the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2018/19 and does not expect to breach the requirements over the Branch's planning period.

E.6 Any other information

NIA - UK is not use any undertaking specific parameters for purposes of SCR calculations

The New India Assurance Co. Ltd.

Solvency and Financial Condition Report

Disclosures

31 March

2019

(Monetary amounts in GBP thousands)

General information

Undertaking name	The New India Assurance Co. Ltd.
Undertaking identification code	IN
Type of code of undertaking	The New India Assurance Company Limited
Type of undertaking	GB
Country of authorisation	549300Y7BOB3N24JL432
Language of reporting	en
Reporting reference date	31 March 2019
Currency used for reporting	GBP
Accounting standards	Local GAAP
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.17.01.02 - Non-Life Technical Provisions

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
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	3,513
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	99
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	269,697
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	4,462
R0140	<i>Government Bonds</i>	3,665
R0150	<i>Corporate Bonds</i>	797
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	0
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	265,235
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	52,256
R0280	<i>Non-life and health similar to non-life</i>	52,256
R0290	<i>Non-life excluding health</i>	52,256
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	4,249
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	3,276
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	20,326
R0420	Any other assets, not elsewhere shown	303
R0500	Total assets	353,719

S.02.01.02
Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	216,083
R0520	<i>Technical provisions - non-life (excluding health)</i>	216,083
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	205,950
R0550	<i>Risk margin</i>	10,133
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
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	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
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)	6,105
R0850	Subordinated liabilities	
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	222,188
R1000	Excess of assets over liabilities	131,531

S.17.01.02
Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligation		
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance		
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180	
R0010	Technical provisions calculated as a whole																	
				0	0		0	0								0	0	
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	
																	0	
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross																	
				7,952	-699		-1,082	498									4,565	11,234
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	
				-1,840	0		-1,491	-132									-4,816	-8,279
R0150	Net Best Estimate of Premium Provisions																	
				9,792	-699		409	630									9,381	19,513
	Claims provisions																	
R0160	Gross																	
				50,987	2,324		32,451	30,383									78,573	194,717
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	
				17,422	643		10,796	1,147									30,528	60,536
R0250	Net Best Estimate of Claims Provisions																	
				33,564	1,681		21,655	29,236									48,045	134,181
R0260	Total best estimate - gross																	
				58,939	1,624		31,369	30,881									83,138	205,950
R0270	Total best estimate - net																	
				43,356	981		22,064	29,866									57,426	153,694
R0280	Risk margin																	
				2,900	80		1,543	1,519									4,090	10,133
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	
R0300	Best estimate																	
R0310	Risk margin																	
																		0
R0320	Technical provisions - total																	
				61,839	1,704		32,912	32,400									87,229	216,083
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total																	
				15,583	643		9,304	1,014									25,712	52,256
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total																	
				46,256	1,061		23,608	31,386									61,516	163,827

S.23.01.01

Own Funds

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions
Ancillary own funds	
R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds
Available and eligible own funds	
R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR
R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR
Reconciliation reserve	
R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve
Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
128,018	128,018			
3,513				3,513
0				
131,531	128,018	0	0	3,513
0				
0				
131,531	128,018	0	0	3,513
128,018	128,018	0	0	
131,531	128,018	0	0	3,513
128,018	128,018	0	0	
114,992				
33,888				
114,38%				
377.77%				
C0060				
131,531				
3,513				
128,018				
0				
0				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

- R0010 Market risk
- R0020 Counterparty default risk
- R0030 Life underwriting risk
- R0040 Health underwriting risk
- R0050 Non-life underwriting risk
- R0060 Diversification

- R0070 Intangible asset risk

- R0100 **Basic Solvency Capital Requirement**

Calculation of Solvency Capital Requirement

- R0130 Operational risk
- R0140 Loss-absorbing capacity of technical provisions
- R0150 Loss-absorbing capacity of deferred taxes
- R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
- R0200 **Solvency Capital Requirement excluding capital add-on**
- R0210 Capital add-ons already set
- R0220 **Solvency capital requirement**

Other information on SCR

- R0400 Capital requirement for duration-based equity risk sub-module
- R0410 Total amount of Notional Solvency Capital Requirements for remaining part
- R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds
- R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
- R0440 Diversification effects due to RFF nSCR aggregation for article 304

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
30,121		
32,840		
0		
0		
75,718		
-29,865		
0		
108,813		
C0100		
6,179		
0		
0		
0		
114,992		
0		
114,992		
0		
0		
0		
0		

USP Key

For life underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 9 - None

For health underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 2 - Standard deviation for NSLT health premium risk
- 3 - Standard deviation for NSLT health gross premium risk
- 4 - Adjustment factor for non-proportional reinsurance
- 5 - Standard deviation for NSLT health reserve risk
- 9 - None

For non-life underwriting risk:

- 4 - Adjustment factor for non-proportional reinsurance
- 6 - Standard deviation for non-life premium risk
- 7 - Standard deviation for non-life gross premium risk
- 8 - Standard deviation for non-life reserve risk
- 9 - None

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

R0010	MCR _{NL} Result	C0010	33,888
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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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	C0020	C0030
R0020	0	
R0030	0	
R0040	0	
R0050	43,356	33,185
R0060	981	11,660
R0070	0	
R0080	22,064	33,627
R0090	29,866	8,789
R0100	0	
R0110	0	
R0120	0	
R0130	0	
R0140	0	
R0150	0	
R0160	0	
R0170	57,426	41,700

Linear formula component for life insurance and reinsurance obligations

R0200	MCR _L Result	C0040	0
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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		
R0220		
R0230		
R0240		
R0250		

Overall MCR calculation

R0300	Linear MCR	C0070	33,888
R0310	SCR		114,992
R0320	MCR cap		51,746
R0330	MCR floor		28,748
R0340	Combined MCR		33,888
R0350	Absolute floor of the MCR		3,288
R0400	Minimum Capital Requirement		33,888