THE WREN INSURANCE ASSOCIATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
Year ended 30 June 2018

2018

Wren

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2018

The Wren Insurance Association Limited (Wren or the Association) is a mutual insurance company which provides professional indemnity insurance to a select group of architectural practices. Founded in 1987, it currently has 61 Members.

The Association's strategic objectives were first established in response to the concerns of its founding Members, and are regularly reviewed to ensure that they remain relevant. At the most recent review in 2016, the main strategic objectives were agreed as follows:

- Deliver cost-effective insurance in the long-term;
- Provide Members with control over their professional indemnity insurance and promote the interests of the membership as a whole on insurance issues affecting architects;
- Maintain appropriate cover and assist Members to align their contractual liabilities with the cover provided;
- Maintain stability in the cost of cover and remain as independent of reinsurance as is reasonable;
- Improve standards in controlling and managing risk within Member practices;
- Meet the highest standards of governance, risk management and financial practice within the Association; and
- Contribute towards the development of new talent in the architectural industry.

A review of the Association's Investment Strategy is currently in progress and a wider strategic review is scheduled to take place in 2019. The Board will be considering the appropriate scope and format of the next strategic review towards the end of 2018.

Finance and underwriting

The Association's financial results for the year ended 30 June 2018 have been impacted by three main events: the first was the settlement of a long running claim from the 2007/08 policy year, which has turned out to be the largest claim ever paid by the Association. This settlement resulted in substantial reinsurance recoveries but also the payment of additional reinsurance premiums known as reinstatement premiums. The second was the completion of the process which began three years ago to end the reinsurance arrangement with Citadel Reinsurance Company Limited, by way of a final commutation payment to the Association. The third was a disappointing performance by the investment portfolio, which undershot the longer-term target. The overall result for the year after tax was a deficit of £1.4 million and the free reserves therefore fell from £45.9 million to £44.5 million. However, the Association remains in a strong financial position with capital well within the economic capital corridor set by the Board.

At the renewal on 1 July 2017, there was no general rate increase and many firms enjoyed a modest reduction in their call rates. Some firms declared increased levels of fee income and three new Members joined the Association during the year. The total call income of the Association was marginally lower than the prior year at £10.1 million (2017 – £10.3 million). However, with the Association remaining in a strong financial position, in March 2018 the Board was able to approve returns of call of £1.7 million in aggregate from the 2009/10 and 2010/11 policy years.

Underlying reinsurance costs were at a very similar level to the prior year, a small rate reduction on the market contract being offset by a slightly higher premium paid to Citadel (which, following the termination of the arrangement, will be the last). However, as noted above, the reinsurance recoveries on the large claim settlement triggered the payment to reinsurers of reinstatement premiums totalling £1.2 million and so, in total, reinsurance premiums are higher year on year.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was lower than the previous year, at just under £2.0 million. This was the result of a more pessimistic view being taken of the longer-term return, which was reduced from 3.50% to 3.05%.

Net claims incurred for the year were lower than the prior year – £3.2 million against £6.9 million. Gross claims paid were significantly higher at £13.8 million (2017 – £2.1 million), however, reflecting in particular the payment of the large claim settlement noted above of just over £10 million. Receipts from reinsurers were also substantially higher than 2017 at £15.8 million. This figure comprises the £8.8 million final commutation receipt from Citadel, previously recorded in reinsurers' share of technical provisions, and reinsurance recoveries from the large claim settlement of £7.0 million.

Claims in the 2017/18 policy year were higher than in 2016/17 in both number and value, with 136 notifications (2016/17 – 123 notifications) being made during the policy year.

However, only two of these carried a reserve above £100,000 and that figure includes a number of notifications involving cladding that were made on a precautionary basis following the Grenfell Tower fire. The gross provision for claims fell by £6m, while the reinsurers' share of claims outstanding fell by £11.1 million, which reflects the payment of the Citadel commutation referred to above and the improvement to one large claim which had accrued reinsurance recoveries at the last year end. On a net basis, the provision for claims outstanding increased by £5.1 million (2017 – £10.4 million) and at 30 June 2018 stood at £29.7 million (2017 – £24.5 million).

Operating costs were a little higher than in 2017 at £4.3 million (2017 – £4.1 million), reflecting an increase to the management fee and some additional professional fees. The balance on the underwriting (technical) account was a small deficit of £15,965.

The actual investment return achieved for the year, at £0.6 million, was below the longer-term rate, which resulted in a transfer from the investment reserve, after adjusting for tax, of £1.25 million. More detailed commentary on the investment performance is set out in the investment report below.

The Association's investments fell by £1.6 million to £68.4 million, which reflects the £0.6 million of investment return generated, less a net transfer of £2.2 million out of the portfolio. The investment portfolio benefitted from the investment of the final funds received from Citadel but a significant withdrawal was necessary to pay the claim settlement referred to above. The reinsurance recoveries on that claim, amounting to £5.8 million (net of reinstatement premiums), had not been received by the year end (they were paid in full in early July) and are shown as a debtor in the statement of financial position. They have since been transferred back to the investment portfolio.

Finally, the free reserves of the Association at 30 June 2018 in aggregate stood at £44.5 million. The investment reserve grew by £1.25 million, which resulted from a decision by the Board in March 2018 to transfer £2.5 million from the income and expenditure account to the investment reserve, offset by the tax-adjusted shortfall in the actual investment return against the longer-term rate of £1.25 million. The income and expenditure account grew by £0.4 million to stand at £9.7 million, the general reserve remained at £13.25 million and the reinsurance reserve fell by £3.1 million to stand at £10.2 million. The Association's overall financial position therefore remains strong.

The Board also agreed in March 2018 that there was no necessity for a general rate increase at 1 July 2018. At the 2018 renewal, all of the Association's Members renewed their cover.

Investments

During the course of the financial year economic growth has been more resilient than many feared. In fact the global economy has been in 'Goldilocks' mode, the 'not too hot, not too cold' scenario where growth is decent, inflation low, and central banks are treading cautiously. The much-heralded Trump tax cuts certainly helped to provide additional stimulus in the US. Many would argue that the US economic cycle is too mature for additional stimulus, so interest rates being increased several times to help counter the inflation effects of the tax cuts was helpful. As the year progressed expectations for future growth fell, not least because of the potentially damaging impact of the escalating trade war which appears to be more than sabre rattling.

Central banks have started to unwind the massive monetary stimulus that has been in place since the financial crisis. For some countries this involves increasing interest rates, albeit to still only modest levels, and for the countries not yet ready to increase rates it involves a reduction in the Quantitative Easing programme.

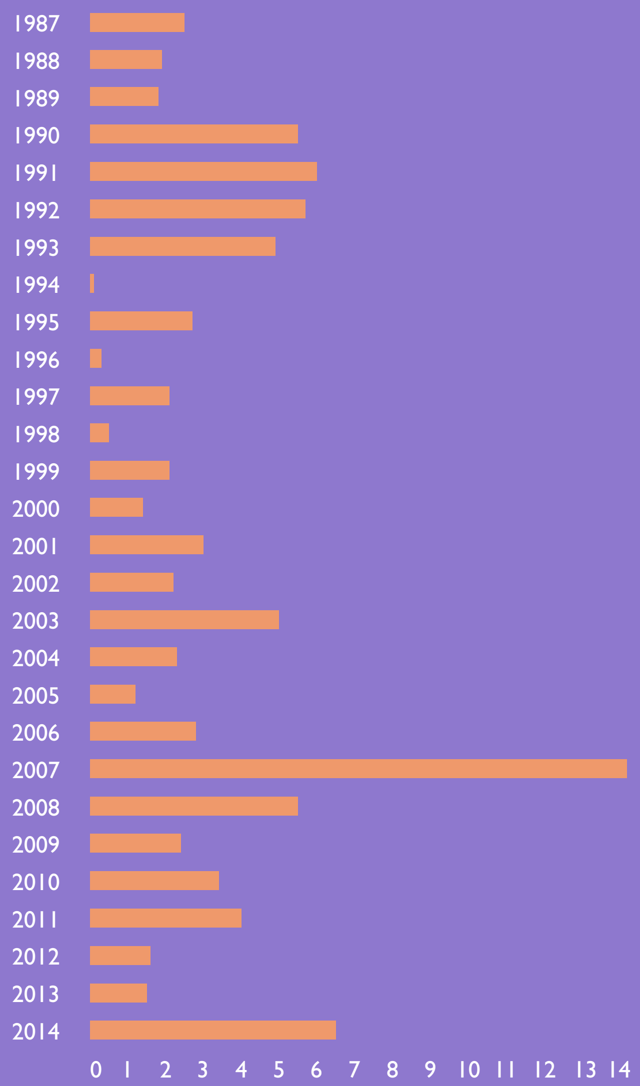
In the UK, the long hot summer of 2018 has had a positive impact on consumers' spending behaviour but for most of the year growth has been subdued, most likely because of the uncertainty of the Brexit negotiations and higher inflation. With the Brexit picture remaining as murky as ever, one must assume that the UK's growth rate will remain below that of the rest of the developed world. The Governor of the Bank of England highlighted the need to increase interest rates at this stage of the economic cycle and, after having back-tracked on several occasions, a rate increase was agreed in August 2018.

Government bond yields started and ended the financial year at broadly the same level, but followed US yields higher earlier in the year before falling back. Corporate bond yields rose slightly having started the period with an unusually tight premium over government bonds.

Stock market volatility returned in February after a long period of calm. Having started 2018 very positively, investors became spooked by the prospect of higher US bond yields and interest rates. As it happened, the volatility did not last for long and, helped by good growth in corporate profits, stock markets recovered the ground lost in the first quarter of 2018.

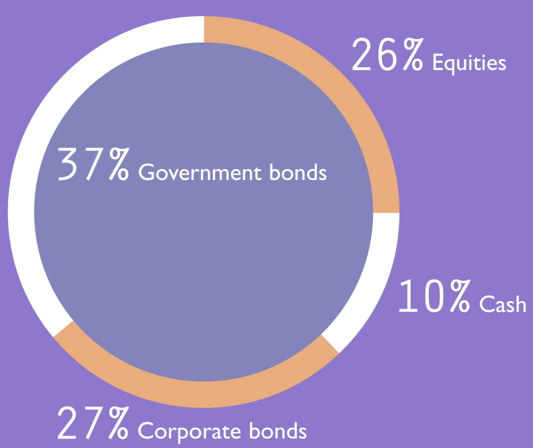
Over the last 12 months the Defensive (matching) portfolio returned +0.2% reflecting low interest rates and bond yields. The Growth portfolio returned +2.6%. This meant that the Association's total portfolio returned +1.4% for the year to 30 June 2018 and +3.8% per annum over the last three years.

Claims before reinsurance recoveries £m



(Data in 2015, 2016 and 2017 policy years is insufficient to make accurate projections)

Investment holdings at 30 June 2018



Claims

The number of matters notified to the Association during the 2017/18 policy year increased slightly compared to the previous year, returning to the level seen in the 2015/16 policy year. This increase reflects the number of precautionary cladding-related notifications that the Association has received as building owners, developers and contractors seek to ensure that potential claims against them post-Grenfell are passed down to the design team at an early stage amidst increasing nervousness that cover for such claims is being restricted in the insurance market. It remains to be seen how many will result in liabilities to the Association, as poor workmanship appears to be the cause of many of the reported problems. As for prior year claims, payments made were limited in number, although, as noted elsewhere, this financial year saw the settlement of a large claim from the 2007/08 policy year, as well as one from the 2011/12 policy year, demonstrating that some notifications can have a very long tail prior to payment.

Contract review

The Wren contract review service remained busy, with the number of appointments and other contractual documents seen by the Managers continuing to grow, particularly in relation to UK projects. Particular areas of focus are consultants' and sub-consultants' continuing attempts to cap their liability and, increasingly, restrictions on certain consultants' and sub-consultants' professional indemnity insurance cover post-Grenfell. Without appropriate protection, Members are at risk of picking up liability for losses that are not their responsibility. At the same time the Managers have continued to negotiate standard appointments with developers, contractors and consultants, as well as providing input into the negotiation of industry standard appointments.

Risk management

The most recent programme of Wren risk management reviews of Member offices in the UK and overseas commenced in October 2016 and concluded in July 2018. During this programme, the Managers introduced a film dramatisation of a fictional 'problem project' for use in risk awareness workshops. Updates and additions to the Wren Risk Management Guidelines continue to be published on the Wren website to reflect the most recent developments in the construction industry, new or pending legislation and Members' claims experience.

Principal business risks and uncertainties

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

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

The business risks and uncertainties are discussed further in Note 10 to the Financial Statements.

Future development

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

Rules of the Association

Impact of 'Brexit'

The Association currently holds authorised permissions with a number of European Economic Area (EEA) territories, which allow it to provide insurance to a small number of subsidiaries of UK Member practices located within the EEA. The Board has considered the potential impact on the Association of the United Kingdom's departure from the European Union, particularly the risk of the Association losing its ability to conduct business within the EEA, and has developed a contingency plan to enable it to continue to provide cover to the EEA subsidiaries of its UK Members. In accordance with this plan, a number of changes have been made to the Rules for the 2018/2019 policy year which will enable the Association to reinsure a fronting arrangement provided by an EU registered insurer, should the Association lose its passporting rights in March 2019. As well as responding to the risks and uncertainties surrounding Brexit, these Rule changes will also assist the Association in providing cover to Members working in jurisdictions where there is a requirement to purchase cover from an insurer domiciled in the country of the project.

Other rule changes

A change has been made to Rule 4(2) relating to costs of enquiries and legal costs, to grant the Managers discretion to agree cover for certain expenses which might otherwise fall outside the Rules, thus allowing prompt action on behalf of a Member if considered necessary and appropriate.

The Managers and the Board continue to review the cover provided by the Association to ensure that it meets the needs of the Members and responds to developments in the market, while remaining as broad as is sustainable in the long-term. No changes have been made to the scope of cover and no additional restrictions have been introduced on the cover provided to Members under the Rules for the 2018/19 policy year.

Wren scholarships

The RIBA Wren Insurance Association Scholarship was initially set up by the Association in 2012. The scholarship supports the Association's strategic objective of contributing towards the development of new talent in the architectural profession by providing financial assistance to a select number of outstanding Part 2 students who have the potential to make a significant contribution in the field of architecture. Over its first five years, the scheme has provided support to 25 talented recipients, a number of whom have been offered employment by Member practices.

The Board has confirmed the Association's continuing commitment to the scheme and approved an increase in the scholarship fund for the 2018 awards. Five scholarships of £6,000 each were awarded in the summer of 2018 to Tom Badger (London School of Architecture), Larry Botchway (Royal College of Art), Love Di Marco (Architectural Association), Naomi Rubbra (Bartlett School of Architecture, University College London) and Dominic Walker (Bartlett School of Architecture, University College London). All scholarship winners are given the opportunity of being individually mentored by Members of the Association and are invited to meet each other and representatives from the membership at the Members' Forum, which takes place in March each year.

A D Stanford
Chairman
19 September 2018

The directors have pleasure in presenting their report together with the audited financial statements for the year to 30 June 2018.

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

The names of the directors are shown on page 27. At the annual general meeting on 23 March 2018, Messrs Rich, Rudolph and Thompson retired by rotation and were reappointed. Mr Bennie also retired by rotation but, having completed the agreed maximum continuous term as a director, did not stand for re-election. Mr D Hills was appointed to fill the vacancy resulting from Mr Bennie's retirement.

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

Membership

- Investment Performance and Strategy
- Claims and Claims Payments
- Risk Management of Members
- Contract Review
- Risk and Compliance
- Corporate Governance
- Appointment and Retirement of Directors
- Report and Financial Statements
- Regulatory Capital Requirements
- Managers' and Directors' Remuneration
- Call Rates
- Reinsurance Arrangements
- Rules of the Association
- Cyber Cover
- Brexit
- Sponsorship of Architectural Students

Directors' indemnity insurance

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

Financial instruments

Information on the use of financial instruments by the Association and its management of financial risk is addressed in Note 10 to the financial statements. The Association's exposure to cash flow risk is addressed under the headings of Credit risk, Liquidity risk and Market risk in that note.

Future developments

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

Audit

The Managers are responsible for the preparation of the financial statements and have confirmed they have provided all relevant audit information of which they are aware. The Audit Group has considered the financial statements with the Managers, met privately with the auditors, and reported to the Board.

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

Moore Stephens LLP have expressed their willingness to be reappointed as auditors of the Association and, subject to no objections being received, will be deemed to be reappointed in accordance with Section 487 of the Companies Act 2006.

The directors confirm that, to the best of their knowledge, the Strategic Report on pages 1 to 4 includes a fair review of the development and performance of the business and the position of the Association, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
S N Parramore
Secretary
19 September 2018

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the strategic report, statutory directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing these financial statements, the directors are required to:

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

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

Report on the financial statements

Our opinion

In our opinion, The Wren Insurance Association Limited ('the Association') Financial Statements:

• give a true and fair view of the state of the Association's affairs as at 30 June 2018 and of the Association's result for the year then ended;
• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements included within the Annual Report and Financial Statements comprise:

• the Association's income and expenditure account for the year ended 30 June 2018;
• the Association's statement of financial position as at 30 June 2018;
• the Associations statement of cash flows for the year ended 30 June 2018;
• the Association's statement of changes in equity for the year ended 30 June 2018; and
• the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information as set out on pages 14 to 26.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', FRS 103 'Consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts' and applicable law.

Basis for opinion

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

Conclusions relating to going concern

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

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

Our assessment of the risks of material misstatement

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

Area of focus	
Valuation of technical provisions	**Work performed to address this risk**
Due to the nature of the claims incurred by the Association, being professional liability claims for Architects, claims are recorded on a 'Made' basis and therefore there are no pure Incurred But Not Reported (IBNR) claims and there is provision for Incurred But Not Enough Reported (IBNER) in respect of notified claims. The claims are typically long-tail in nature and therefore there is significant uncertainty in the amounts recorded for claims over a number of years. The gross technical provisions in the current year are £29.7m (2017: £35.7m). This is made up of individual case estimates and IBNER. Case Estimates are reliant on the expertise of claims handlers and their experience of assessing claims. IBNER modelling is reliant on relevant claims being input correctly into actuarial models and the application of appropriate actuarial techniques, judgements and assumptions. There is an inherent uncertainty in the reserving of claims, being low volume and high value.	We have: • Reviewed the methodology adopted by the actuaries of the Association to ensure that appropriate methodologies are being used in the assessment of IBNER; • Assessed whether the assumptions made by the Association are consistent with previous years and are appropriate for the classes of business and historical claims development; • Performed a high level review of whether any changes to assumptions would have a material impact on the level of reserves held; • Analysed the development over time of best estimates as calculated by the association and as calculated by our actuarial team; • Tested a sample of outstanding claims at 30 June 2018 to ensure that the claims reserves are consistent with supporting documentation; and • Undertaken substantive testing on a sample basis to ensure that claims estimates have been properly updated to reflect payments up to the year-end date.

Conclusion

Based on our audit procedures we have gained audit assurance that technical provisions are fairly stated.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Based on our professional judgement, we determined materiality for the financial statements as whole to be £230,000. The principal determinant in this assessment was the Association's Net Assets, which we consider to be the most relevant benchmark, as it reflects the underlying interests of the Members of the Association. We have applied a materiality which represents 0.5% of the Association's Net Assets.

We have agreed with the Audit Group that we shall report to them any misstatements in excess of £11,500 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

Effectiveness of the audit on the identification of possible fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Association. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions and reinsurers' share of technical provisions.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

We were appointed by ordinary resolution in June 1987. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 30 years.

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

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

Use of our report

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

Thomas Reed Senior Statutory Auditor
For and on behalf of Moore Stephens LLP Statutory Auditor
150 Aldersgate Street
London EC1A 4AB
19 September 2018

INCOME AND EXPENDITURE ACCOUNT

for the year ended 30 June 2018

Technical account – general business	Note		2018 £		2017 £
Earned premiums, net of reinsurance					
Calls and premiums	2	**10,058,663**		10,273,530	
Return calls	2	**(1,705,962)**		(1,766,535)	
			8,352,701		8,506,995
Reinsurance premiums	2		**(2,845,946)**		(1,555,628)
			5,506,755		6,951,367
Allocated investment return transferred from the non-technical account			**1,983,486**		2,403,560
			7,490,241		9,354,927
Claims paid					
Gross amount		**(13,806,118)**		(2,137,519)	
Reinsurers' share		**15,750,607**		5,650,744	
		1,944,489		3,513,225	
Change in the provision for claims	3				
Gross amount		**6,003,463**		(13,088,135)	
Reinsurers' share		**(11,147,560)**		2,714,835	
		(5,144,097)		(10,373,300)	
Claims incurred net of reinsurance			**(3,199,608)**		(6,860,075)
Net operating expenses	4		**(4,306,598)**		(4,089,974)
Balance on the technical account			**(15,965)**		(1,595,122)
Non-technical account					
Balance on the technical account			**(15,965)**		(1,595,122)
Investment income	5		**607,783**		3,994,238
Allocated investment return transferred to the general business technical account	6		**(1,983,486)**		(2,403,560)
Net deficit before taxation			**(1,391,668)**		(4,444)
Taxation	7		**(54,555)**		(669,849)
Net deficit and total comprehensive income after taxation			**(1,446,223)**		(674,293)

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

The notes on pages 14 to 26 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2018

Assets	Note	2018 £	2017 £
Financial investments	8	**68,411,405**	69,976,410
Reinsurers' share of technical provisions			
Claims outstanding		**–**	11,147,560
Debtors			
Reinsurance operations	9	**5,791,044**	738,903
Direct insurance operations – Members		**84,811**	7,846
Prepayment		**30,000**	25,000
Cash at bank		**2,433,279**	2,268,187
Accrued income		**226,958**	342,692
		76,977,497	84,506,598

Liabilities	Note	2018 £	2017 £
Capital and reserves			
Investment reserve		**11,304,042**	10,056,262
General reserve		**13,250,000**	13,250,000
Reinsurance reserve		**10,224,172**	13,276,083
Income and expenditure account		**9,679,740**	9,321,832
		44,457,954	45,904,177
Technical provisions			
Gross outstanding claims	3	**29,666,501**	35,669,964
Creditors			
Direct insurance operations – Members		**2,080,954**	1,906,715
Reinsurance operations		**292,015**	183,678
Taxation		**17,578**	430,928
Other creditors		**462,495**	411,136
		32,519,543	38,602,421
		76,977,497	84,506,598

Approved by the Board on 19 September 2018

A D Stanford Director
H O Wells Director

J P Rodgers Wren Managers

The notes on pages 14 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Investment reserve £	General reserve £	Reinsurance reserve £	Income and expenditure £	Total £
At 30 June 2016	8,732,297	13,250,000	12,774,632	11,821,541	46,578,470
Deficit for the financial year	–	–	–	(674,293)	(674,293)
Transfer to investment reserve	1,323,965	–	–	(1,323,965)	–
Transfer to reinsurance reserve	–	–	501,451	(501,451)	–
At 30 June 2017	**10,056,262**	**13,250,000**	**13,276,083**	**9,321,832**	**45,904,177**
Deficit for the financial year	–	–	–	(1,446,223)	(1,446,223)
Transfer to investment reserve	1,247,780	–	–	(1,247,780)	–
Transfer from reinsurance reserve	–	–	(3,051,911)	3,051,911	–
At 30 June 2018	**11,304,042**	**13,250,000**	**10,224,172**	**9,679,740**	**44,457,954**

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

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

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

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

The notes on pages 14 to 26 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 30 June 2018

Cash flows from operating activities	2018 £	2017 £
Net deficit before taxation	**(1,391,668)**	(4,444)
Adjustments for:		
Change in provisions for claims	**5,144,097**	10,373,300
Increase in insurance and other debtors	**(5,018,372)**	(667,663)
Increase/(decrease) in insurance and other creditors	**333,935**	(122,050)
Investment income	**(1,418,146)**	(2,996,414)
Unrealised gain/(loss) on investments	**810,363**	(997,824)
Cash from operations	**(1,539,791)**	5,584,905
Income taxes paid	**(467,905)**	(532,455)
Net cash generated from operating activities	**(2,007,696)**	5,052,450

Cash flows from investing activities	2018 £	2017 £
Purchase of equity shares	**(1,152,330)**	(10,474,946)
Purchase of fixed interest investments	**(11,121,372)**	(20,822,194)
Sale of equity shares	**2,987,493**	2,214,489
Sale of fixed interest investments	**7,734,925**	14,206,947
Net change to deposits with credit institutions	**2,798,614**	8,980,096
Income from equity investments	**292,261**	568,358
Income from fixed income investments	**875,327**	727,515
Income from bank and other cash	**(3,543)**	1,277
Investment management expenses	**(238,587)**	(215,477)
Net cash from investing activities	**2,172,788**	(4,813,935)

Net increase in cash at bank	**165,092**	238,515
Cash at bank at the beginning of the financial year	**2,268,187**	2,029,672
Cash at bank at the end of the financial year	**2,433,279**	2,268,187

The notes on pages 14 to 26 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

1 Accounting policies

Basis of accounting

These financial statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Part 3 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) under the Companies Act 2006 and in accordance with applicable accounting standards in the U.K. In accordance with Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103), the Association has applied existing accounting policies for insurance contracts. The Regulations require the use of the term 'Profit and Loss Account' as a heading. The Statutory 'Profit and Loss Account' is replaced by an 'Income and Expenditure Account' in these financial statements, consistent with the mutual status of the Association.

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

Statement of Compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102), Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103) and the Companies Act 2006.

Policy year accounting

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

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

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

Calls and premiums

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

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

Claims and reinsurance recoveries

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

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

1 Accounting policies (continued)

Investment income

Investment income includes interest and dividends receivable for the year.

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

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

Allocation of investment return

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

Claims outstanding

The Association underwrites professional liability risks on a 'claims made' basis. Claims outstanding represent the Managers' assessment of the ultimate cost of claims reported at the statement of financial position date.

The Association reserves individual claims notified on a 'worst likely outcome' basis. Estimates for the cost of claims are made by legally experienced claims handlers who base their estimates on the information available about the individual claim and experience of similar cases. Where it is not yet possible to make an assessment of the likely outcome of a claim, a statistically derived reserve is applied based on the development of similar notifications in earlier policy years. In addition, IBNER (incurred but not enough reserved) provisions are applied to aggregate outstanding estimates for each policy year using percentages that reflect the stage of development of the policy year.

In the case of policies incepting less than thirty-six months before the balance sheet date, the information available is frequently inadequate to form a reliable basis for case-by-case estimates. Accordingly, claims reserves are also calculated on the basis of standard actuarial claims projection techniques and stochastic modelling based on historical claims patterns, adjusted for inflation and other variables such as the volume of business transacted by the membership, to predict their potential ultimate cost. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims for more recent years.

Any surplus IBNER provisions will be automatically released once the policies to which they relate have been in existence for longer than thirty-six months. By contrast, in years where it appears to the Managers that the actual claims experience is likely to be worse than the original provisions established, those provisions are increased accordingly.

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

The ultimate liability arising from claims made under insurance contracts

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

1 Accounting policies (continued)

Critical accounting judgements and estimation uncertainty

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

Cash and cash equivalents

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

Investments

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

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

Acquisition costs

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

2 Calls and premiums

	2018 £	2017 £
Advance calls and premiums	**10,058,663**	10,273,530
Returns of call – 2010/11	**(724,157)**	–
Returns of call – 2009/10	**(981,805)**	(1,767,248)
Returns of call – 2008/09	**–**	713
	(1,705,962)	(1,766,535)

All business is written in the UK.

Reinsurance premiums include £1,208,956 (2017 – £Nil) relating to reinstatement premiums paid on our market reinsurance recovery.

3 Movement in prior years' claims provisions

Included within the net change in provision for claims of £5,144,097 is a credit of £4,966,893 (2017 – charge of £4,794,734) relating to prior years. The balance is made up as follows:

	2018 £	2017 £
Net provision at beginning of year	**24,522,404**	14,149,104
Net payments during the year in respect of these provisions	**2,717,535**	3,720,025
Net provision carried forward in respect of claims provided for at the end of the previous year	**(22,273,047)**	(22,663,863)
Movement in prior years' claims provision	**4,966,892**	(4,794,734)

Development claim tables

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

Insurance claims – gross

Estimate of ultimate claims cost attributable to the policy year.

	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £
End of reporting year	5,000,000	5,000,000	8,980,463	5,000,000	4,280,000	4,280,000	4,662,000	5,227,000	5,199,000	7,529,000
One year later	8,809,548	5,000,000	8,980,463	5,000,000	4,280,000	4,280,000	4,662,000	3,542,400	7,309,200	
Two years later	11,118,298	5,000,000	8,980,463	6,000,000	4,280,000	4,280,000	7,003,300	2,697,400		
Three years later	10,950,154	4,065,930	2,705,610	4,182,227	3,335,462	3,220,600	7,033,300			
Four years later	10,456,219	3,603,492	2,608,461	7,305,725	3,379,000	2,016,600				
Five years later	8,964,480	3,892,431	3,209,393	8,739,719	2,114,000					
Six years later	8,369,111	4,196,723	3,967,000	4,559,800						
Seven years later	5,949,680	4,397,600	3,935,000							
Eight years later	5,948,920	2,886,140								
Nine years later	5,941,320									
Current estimate of ultimate claims	5,941,320	2,886,140	3,935,000	4,559,800	2,114,000	2,016,600	7,033,300	2,697,400	7,309,200	7,529,000
Cumulative payments to date	5,941,320	1,772,356	3,764,630	4,218,694	1,649,376	1,387,024	597,805	595,710	657,798	135,546
Liability recognised at the end of the year	–	1,113,784	170,370	341,106	464,624	629,576	6,435,495	2,101,690	6,651,402	7,393,454
Total liability relating to the last ten policy years										25,301,501
Other claims liabilities										4,365,000
Total reserve included in the statement of financial position										**29,666,501**

Insurance claims – net

Estimate of ultimate claims cost attributable to the policy year.

	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £
End of reporting year	3,000,000	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000	4,662,000	100,000	1,460,141	7,529,000
One year later	3,000,000	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000	4,662,000	100,000	3,566,390	
Two years later	3,000,000	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000	4,700,000	(175,000)		
Three years later	3,000,000	2,575,269	2,395,538	3,879,494	3,335,462	3,220,600	4,059,000			
Four years later	3,000,000	1,848,575	2,298,389	4,000,000	3,379,000	2,016,600				
Five years later	2,439,491	2,067,935	2,661,939	3,046,959	2,114,000					
Six years later	2,178,123	(1,541,200)	3,419,546	(252,041)						
Seven years later	(453,808)	(1,340,323)	3,387,546							
Eight years later	(454,568)	(2,851,783)								
Nine years later	(462,168)									
Current estimate of ultimate claims	(462,168)	(2,851,783)	3,387,546	(252,041)	2,114,000	2,016,600	4,059,000	(175,000)	3,566,390	7,529,000
Cumulative payments to date	(462,168)	(3,965,567)	3,217,176	(593,147)	1,649,376	1,387,024	(2,376,495)	(2,276,690)	(3,085,012)	135,546
Liability recognised at the end of the year	–	1,113,784	170,370	341,106	464,624	629,576	6,435,495	2,101,690	6,651,402	7,393,454
Total liability relating to the last ten policy years										25,301,501
Other claims liabilities										4,365,000
Total reserve included in the statement of financial position										**29,666,501**

The negative figures for the estimate of ultimate costs attributable to 2008/09, 2009/10, 2011/12 and 2015/2016 are due to the overall gain made from a commuted reinsurance contract.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

4 Net operating expenses	2018 £	2017 £
Acquisition costs	**450,000**	462,800
Administrative expenses	**3,856,598**	3,627,174
	4,306,598	4,089,974

Acquisition costs represent the management cost of underwriting, including the renewal of the entry of existing Members, negotiations with potential Members and the processing of entry documentation.

Included in administrative expenses are:
- Risk management fees of £690,000 (2016 – £670,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
- Directors' remuneration of £141,537 (2017 – £146,132).
- Auditors' remuneration of £45,000 (2017 – £42,300). In respect of taxation services, PKF Littlejohn LLP were paid £3,600, prior year amount was paid to Moore Stephens in addition to the audit fee (2017 – £6,960).

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

5 Net investment income	2018 £	2017 £
Income from fixed interest investments	**875,327**	727,515
Dividends receivable from equities	**292,261**	568,358
Bank and other interest	**(3,543)**	1,277
Profit on the realisation of investments	**492,688**	1,914,741
Change in unrealised (loss)/gains on investments	**(810,363)**	997,824
Investment income	**846,370**	4,209,715
Investment management expenses	**(238,587)**	(215,477)
Net investment income	**607,783**	3,994,238

6 Investment return	2018 £	2017 £
Allocated investment return	**1,983,486**	2,403,560

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

	2018	2017
Bonds	**1.3%**	2.80%
Corporate bonds	**3.1%**	4.00%
Equities	**6.3%**	6.75%

At the Board meeting in March it was agreed to transfer £2.5m from closed years surplus to the investment reserve. A net transfer of £1,247,780 has therefore been made to the investment reserve equivalent to the surplus of actual return against the longer-term return for the year (net of tax) during the current year.

Ten-year comparison of allocated return with actual returns	2018 £	2017 £
Net investment income since 1 July 2008 (2007)	**22,154,100**	21,660,976
Allocated return since 1 July 2008 (2007)	**18,221,648**	17,952,702
Surplus of actual return above allocated return	**3,932,452**	3,708,274

7 Taxation

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

Analysis of charge in period	2018 £	2017 £
UK Corporation Tax	**54,555**	669,724
Under provision in previous years	**–**	125
Total tax charge	**54,555**	669,849

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of corporation tax in the UK of 19% (2017 – 20%). The differences are explained below:

	2018 £	2017 £
Net deficit before tax	**(1,391,668)**	(4,444)
Deficit on ordinary activities multiplied by standard rate of corporation tax in the UK	**(264,417)**	(889)
Effects of:		
Non-taxable mutual insurance operations	**373,828**	784,254
UK dividends not taxable	**(54,856)**	(113,641)
Under provision in previous years	**–**	125
Current tax charge (see above)	**54,555**	669,849

8 Investments

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

	Deposits with credit institutions £	Corporate bond investments £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	17,620,568	–	11,121,372	1,152,330	29,894,270
Sale of investments	(20,419,182)	–	(7,734,925)	(2,987,493)	(31,141,600)
Realised gains	1,012	–	(146,983)	638,659	492,688
Net portfolio investment	(2,797,602)	–	3,239,464	(1,196,504)	(754,642)
Unrealised gains	–	84,164	(684,688)	(209,839)	(810,363)
Change in value of portfolio	(2,797,602)	84,164	2,554,776	(1,406,343)	(1,565,005)
Market value at 1 July 2017	9,418,170	18,385,656	22,751,378	19,421,206	69,976,410
Market value at 30 June 2018	**6,620,568**	**18,469,820**	**25,306,154**	**18,014,863**	**68,411,405**
Cost at 1 July 2017	9,418,170	16,643,709	22,601,243	15,563,753	64,226,875
Cost at 30 June 2018	6,620,568	16,643,709	25,840,707	14,367,249	63,472,233

9 Debtors – reinsurance operations

The £5,791,044 reinsurance recovery was received on 3 July 2018. There are no other amounts recoverable at the statement of financial position date.

10 Risk Management

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

The Remuneration Group is responsible for making recommendations to the Board on remuneration of the Managers and the Directors, and the Audit Group is responsible for reviewing the Association's annual Report and Financial Statements, Solvency and Financial Condition Report and Regulatory Supervisory report. The Audit Group receives regular reports from the Association's internal and external auditors and is responsible for approving the audit plan for each year, and for handling the relationship with the external auditors.

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

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

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

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

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

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

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

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

The Board and Managers have sought to establish and embed risk management procedures within the business through a Compliance Manual and a risk management framework which considers and logs potential risks and how they are managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function (which reports to the Audit Group).

10 Risk Management (continued)

10.1 Underwriting risk

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

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

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

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

Due to the nature of the Association's business, insurance risk is wholly concentrated on professional indemnity risks.

Reinsurance

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

Claim reserves

The Association's risk appetite in respect of claims reserves is low, characterised by prudent estimation of individual claims estimating (on a 'worst likely outcome basis') and IBNER reserves set at high levels of confidence.

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

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

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

Sensitivity

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

Increase in loss ratio by 5 percentage points	2018 £	2017 £
Gross	**502,933**	513,676
Net	**275,338**	347,568

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

10 Risk Management (continued)

10.2 Market risk

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

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

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

The most significant currency to which the Association is exposed is sterling, the portfolio of the investments being held in sterling.

Interest rate risk management

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

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

	2018 £	2017 £
0.5% increase in interest rates	**24,552**	24,332
0.5% decrease in interest rates	**(24,552)**	(24,332)

Investment price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equities was 26% (2017 – 28%) of the investment portfolio. The value of the equity holding at the year end amounted to £18.0m (2017 – £19.45m).

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

	2018 £	2017 £
5% increase in equity price	**900,743**	971,060
5% decrease in equity price	**(900,743)**	(971,060)
5% increase in corporate bond price	**923,491**	919,283
5% decrease in corporate bond price	**(923,491)**	(919,283)
5% increase in fixed interest price	**1,265,308**	1,137,569
5% decrease in fixed interest price	**(1,265,308)**	(1,137,569)

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

10 Risk Management (continued)

10.3 Counterparty risks

10.3.1 Credit risk

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

The key areas where the Association is exposed to credit risk are:
- Amount recoverable from reinsurance contracts
- Amounts due from Members
- Counterparty risk with respect to cash and investments

Amounts recoverable on reinsurance contracts

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

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

Amounts due from Members

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

Counterparty risk with respect to cash and investments

The investment policy manages the risk of default by limiting investment in instruments with a credit rating below 'A' whilst also ensuring a diversification of the portfolio by asset, market and counterparty. The policy allows for investment in equities, fixed interest securities, corporate bonds and cash. Within these, materially all investments are at least A rated with many relating to government or supranational bodies.

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

	2018 £	2017 £
Debt securities	**43,775,973**	41,137,034
Reinsurers' share of technical provisions	**–**	11,147,560
Reinsurance debtors	**5,791,044**	738,903
Member and other debtors	**84,811**	7,846
Deposits with credit institutions	**6,620,568**	9,418,170
Cash at bank	**2,433,279**	2,268,187
Total financial assets bearing risk	**58,705,675**	64,717,700

An analysis of this exposure by credit rating is shown below

AAA	**470,082**	5,918,170
AA	**30,780,887**	25,563,575
A	**11,724,323**	15,654,650
BBB+ and below	**15,645,572**	17,573,459
No rating	**84,811**	7,846
Total financial assets bearing risk	**58,705,675**	64,717,700

The unrated exposures relate to amounts due from Members.

10 Risk Management (continued)

10.3.2 Liquidity risk

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

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

At 30 June 2018	Short term assets £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
Quoted shares and variable field securities	18,014,863	–	–	–	–	18,014,863
Debt securities and other fixed income securities	18,469,820	1,745,900	4,656,504	9,037,398	9,866,352	43,775,974
Deposits with credit institutions	6,620,568	–	–	–	–	6,620,568
Reinsurers' share of outstanding claims	–	–	–	–	–	–
Direct insurance operations – Members	84,811	–	–	–	–	84,811
Reinsurance operations	5,791,044	–	–	–	–	5,791,044
Cash at bank	2,433,279	–	–	–	–	2,433,279
Accrued Interest	226,958	–	–	–	–	226,958
Other debtors and prepayments	30,000	–	–	–	–	30,000
Total assets	**51,671,343**	**1,745,900**	**4,656,504**	**9,037,398**	**9,866,352**	**76,977,497**
At 30 June 2017						
Quoted shares and variable field securities	19,421,206	–	–	–	–	19,421,206
Debt securities and other fixed income securities	20,110,852	928,593	2,022,970	10,354,101	7,720,518	41,137,034
Deposits with credit institutions	9,418,170	–	–	–	–	9,418,170
Reinsurers' share of outstanding claims	–	114	–	6,129,240	5,018,206	11,147,560
Direct insurance operations – Members	7,846	–	–	–	–	7,846
Reinsurance operations	738,903	–	–	–	–	738,903
Cash at bank	2,268,187	–	–	–	–	2,268,187
Accrued Interest	342,692	–	–	–	–	342,692
Other debtors and prepayments	25,000	–	–	–	–	25,000
Total assets	**52,332,856**	**928,707**	**2,022,970**	**16,483,341**	**12,738,724**	**84,506,598**

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

At 30 June 2018						
Gross outstanding claims	–	533,236	2,971,270	15,478,708	10,683,287	29,666,501
Direct insurance operations – Members	–	2,080,954	–	–	–	2,080,954
Reinsurance operations	292,015	–	–	–	–	292,015
Taxation	–	17,578	–	–	–	17,578
Other creditors	462,495	–	–	–	–	462,495
Total liabilities	**754,510**	**2,631,768**	**2,971,270**	**15,478,708**	**10,683,287**	**32,519,543**
At 30 June 2017						
Gross outstanding claims	–	451,763	2,524,722	17,542,135	15,151,344	35,669,964
Direct insurance operations – Members	–	1,906,715	–	–	–	1,906,715
Reinsurance operations	183,678	–	–	–	–	183,678
Taxation	–	430,928	–	–	–	430,928
Other creditors	411,136	–	–	–	–	411,136
Total liabilities	**594,814**	**2,789,406**	**2,524,722**	**17,542,135**	**15,151,344**	**38,602,421**

10 Risk Management (continued)

10.4 Operational risk

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

10.5 Limitation of the sensitivity analyses

The sensitivity analyses in section 10.1, 10.2 and 10.3 above shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

10.6 Capital risk management

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

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

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

The Association is regulated by the PRA and Financial Conduct Authority (FCA). Throughout the period the Association complied with the regulators' capital requirements.

The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Association is subject to these regulations. The Association is required to meet a SCR which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Association's risk profile.

10.7 Fair value hierarchy

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

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

10 Risk Management (continued)

10.7 Fair value hierarchy (continued)

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

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

Group	2018 £	2017 £
Level 1	**24,635,431**	28,839,376
Level 2	**43,775,974**	41,137,034
Level 3	**–**	–
	68,411,405	69,976,410

11 Related parties transactions

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

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

Tindall Riley & Co Limited (trading as Wren Managers) manages the Association and received £4,440,000 (2017 – £4,230,000) in respect of management fees and risk management services.

12 Subsequent events

There are no subsequent events which require adjustment or disclosure in the financial statements. The financial statements were authorised for issue by the Board on 19 September 2018.

DIRECTORS

The Wren Insurance Association Limited, Limited by Guarantee

Board of Directors

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

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Auditors

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2018