Sovereign Health Care

Solvency and Financial Condition Report for the year ending 31 December 2023

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COMPANY DETAILS

Company Number:	00085588
Firm Reference Number:	202818
Registered Office:	The Waterfront 2nd Floor, West Wing Salts Mill Road Shipley BD17 7EZ
Registered Auditors:	BDO 55 Baker Street London W1U 7EU
Bankers:	Handelsbanken plc 1st Floor Centre of Excellence Hope Park Bradford BD5 8HH
Solicitors:	Gordons LLP 1 New Augustus Street Bradford BD1 5LL
Investment Managers:	Torevell & Partners 5 Oxford Court Manchester M2 3WQ
Internal Audit:	Azets Carlton House Grammar School Street Bradford BD1 4NS
Regulators:	Prudential Regulation Authority 20 Moorgate London EC2R 6DA Financial Conduct Authority 12 Endeavour Square London E20 1JN

DIRECTORS' STATEMENT OF RESPONSIBILITY

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulation Authority (PRA) rules and Solvency II regulations.

The PRA Rulebook for SII firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting Part requires that the Company must have in place a written policy ensuring ongoing appropriateness of any information disclosed and that the Company must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Report and Accounts, confirm that, to the best of their knowledge:

1. Throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and SII Regulations as applicable; and
2. It is reasonable to believe that, as at the date of the publication of the SFCR, the Company continues to comply, and will continue so to comply in future.

By Order of the Board on 21st March 2024.

Neil McCallum
Chief Executive

A. BUSINESS AND PERFORMANCE

A.1 About Sovereign Health Care

Sovereign Health Care was founded in 1873 as the Bradford and District Hospital Fund with the purpose of raising funds for local hospitals. Whilst it has evolved over the years, we remain a not for profit provider of health care cash plans to around 66,000 individuals. The range of health cash plans are low cost, monthly renewable policies with the purpose of financially supporting our customers when they incur everyday health care costs.

The following principles remain core to the business;

- To remain an independent company and provider of individual and company health care cash plans
- To grow our customer numbers in a profitable manner
- To be able to gift the equivalent of between 5% and 10% of annual turnover each year in charitable donations from investment returns, subject to sufficient capital funds available
- To deliver value for money and useable products to its customers
- To remain a low compliance risk to our regulators

In addition to the provision of cash plans to individuals, Sovereign has signed key strategic partnerships with carefully selected third party providers of complementary products in order to expand the benefit offering to the current and future customer base.

The businesses, UK only, core operations and profitability remain firmly based in cash plans. Sovereign Health Care offer a number of products which generally fall into two types of schemes which are either funded by individuals from their own means or provided by employers.

The Health Care Cash Plan gives access to over 20 types of benefit, with cover for dental and optical treatment being the most popular. In all cases the person covered by the policy benefits is regarded as the policyholder, regardless of who pays the premium. Policyholders use their plan by arranging and receiving specific types of everyday health care treatment, settling the bill and if covered by the cash plan submitting the receipt and claim form to us for reimbursement of a percentage of the costs incurred (product dependent 50%-100%) up to their relevant cover level limit.

Historically our individual health cash plans were linear priced often referred to as unitised pricing, however with the introduction of the Consumer Duty, we reviewed our pricing strategy to ensure fair value across our products. Effective from 1 January 2024 plans are now priced on a community basis and reflects actual usage, nevertheless age and medical history have no impact on premiums, meaning each customer pays the same premium, dependent on the product selection and level of cover. We encourage our customers to use their health cash plans and over the past 3 years we have paid out annually an average of in excess of £7.1m in benefits to our customers.

A.1.1 Executive summary on 2023 performance

The table below summarises Sovereign Health Care's consolidated financial results for the year as reported in the Group financial statements:

	2023 £000's	2022 £000's
Earned income		
Net earned premiums	9,984	9,983
Net commissions received	61	81
Claims incurred	(7,976)	(7,071)
Operational expenses	(3,904)	(3,292)
Underwriting result	**(1,835)**	**(300)**
Investment income - net of fees	2,470	1,448
Interest payable	-	-
Realised gain/(loss) on investments	2,128	8,404
Revaluation of land and buildings	(617)	114
Unrealised gain/(loss) on investments	513	(11,111)
Charitable donations and other charges	(1,583)	(574)
Surplus/(deficit) before taxation	**1,077**	**(2,019)**

Sovereign Health Care continues to focus in its local Bradford and West Yorkshire community, and nationally through corporate employer relationships. Our schemes are low cost, affordable and aim to offer value for money benefits to customers. The cash plans are monthly renewable contracts allowing us to modify the benefits, premiums and terms of conditions subject to us giving customers a minimum of 30 days' notice. Claims for health care treatment can be submitted up to one year after the date of treatment.

Despite the challenging backdrop of the continuing economic uncertainty and the cost-of-living crisis, we achieved a great deal in 2023, with the following highlights:

- Record year for customer claims, paying over £7.7m to our customers
- Diversified our investment portfolio by purchasing a commercial office building, The Waterfront
- Matched our record high in new business sales volume
- Best ever year in terms of new business sales premiums
- Successful recruitment of new Chief Executive Officer
- Implementation of the Consumer Duty
- 150 years of supporting health and wellbeing

During the pandemic our product and pricing strategy review was paused however with the introduction of the regulatory initiative on Consumer Duty, we recommenced this work in 2023 ensuring we balanced good value customer products with a sustainable business model. The Consumer Duty and product reviews was an integral piece of work given the inflationary environment and this work continues into 2024.

In 2023 we handled just under 190,000 claims, paying over £7.7m (2022: £6.9m) to our customers whilst processing these claims on average 3.5 days after the date we received them. Compared to prior year, claims volumes increased by 6% whilst total claims paid increased by 13%, the uplifts in both claims frequency and claims value further reinforced the decision to resume the product and pricing review.

We are proud to report from our 2023 customer survey, 94% of our customers would recommend Sovereign Health Care to family and friends, nevertheless, we continue to invest in our customer service and customer journey, and in 2024 we will focus on reviewing our quality of service, digital servicing capability and product offerings whilst striving to achieve operational effectiveness.

Whilst we reorganised our Sales function in 2021, it is great to report our sales volumes in 2023 matched our best ever year back in 2019, this was achieved with a smaller field sales team. Our sales volumes achieved 112% of our business plan and average annualised premiums on new business sales also topped our best result in 2019. Whilst our member base shrunk by 1%, this was in line with our financial plan considering the planned activity on the product and pricing strategy. Over the next 3-5 years we will be focused on a growth strategy whilst maintaining a sustainable insurance business.

Our investment portfolio, made up of collective funds and property, ended the year at £63,970,151 (2022: £55,027,281), coupled with group cash equivalents and short term deposits of £12,225,522 (2022: £20,152,267) contributes to our sustained extremely strong capital position. Dividend income received of £1,932,956 (2022: £1,654,580) was 17% higher than last year. The successful purchase of The Waterfront during the year also generated £501,525 of rental income. The Board agrees to continue investing in good quality equities through collective funds for the medium to long term, alongside a more defensive element provided by our cash and deposit holdings.

Finally, 2023 marked 150 years of Sovereign Health Care, from our roots in 1873 as the Hospital Fund of Bradford, supporting hospitals and health in our local communities. To celebrate this landmark occasion, we gave back to charities more than ever, donating £1,513,388 (2022: £482,035) to local charities and causes supporting health and wellbeing, including £970,000 to the NHS across Yorkshire. This means over the past 17 years we have donated over £11.7m to charities, including over £3.3m to Yorkshire NHS Trusts.

A.1.2 Business – legal form

Sovereign Health Care is a not for profit health insurance company, founded in 1873. The company is limited by guarantee and has no shareholders.

The Board of Directors are deemed Members of the Company, and the ethos being, the Board Members are custodians of the Company, supervising and strengthening the performance of the business for the next generation of custodians.

No individual member is considered to hold undue influence or controlling interest. The memorandum and articles of association of the company determine the operating model of control.

A.2 Underwriting Performance

Underwriting results have declined over the year however this was a short-term risk accepted by the Board to enable management to undertake a thorough review of our products and pricing strategy in consideration of the new Consumer Duty regulations. For a small team, this was a significant project to undertake, touching on all areas of the business. To enable a controlled implementation plan it was agreed that any changes required would not be effective until 2024. The Board expected a period of short term volatility in our underwriting performance; however, the focus was on improving sustainability for the long term whilst ensuring our products remained good value to our consumers.

Please see the table below for the key business performance indicators:

	2023	2022
Earned premium	9,984	9,983
Claims loss ratio	78%	69%
Operational expense ratio	39%	33%
Combined ratio	118%	103%

Earned premium

Net earned premiums increased marginally by £1,158, however our member base shrunk in the year. Net earned premiums of £9,983,726 (2022: £9,982,568) bettered our financial plan, and although member numbers decreased, it was apparent customers sought out higher levels of cover as the annualised premium equivalent for new business sales increased compared to prior year. Overall, sales activity surpassed our target but unfortunately did not exceed the number of customers that had lapsed.

Claims loss ratio

Claims loss ratio indicated the proportion of earned member premiums which are paid out in claims, over the 12 month reporting period. The claims paid value used does not include any accounting provisions for claims not yet reported or claims handling expenses.

Compared to a target ratio between 65-75%, the claims loss ratio has increased further on prior years position to 78% which reflects on the inflationary environment. Whilst this is reporting outside of our targeted ratio, the review of the product and pricing strategy will look to correct the position in 2024 and onwards. Due to the pandemic, we delayed product reviews meaning our last consumer product review took place in 2017, and this was largely Insurance Premium Tax (IPT) related.

Operational expense ratio

Operating expense ratio is calculated by taking the net operating expenses over net earned premium, showing the proportion of premiums which are used in running the insurance business. The target ratio for the year was 38%, slightly above target. This is an increase compared to 2022, however this was anticipated as costs have increased as the economy felt the inflationary pressures from the cost of living crisis coupled with one-off exceptional items to cover costs for project works. Focus throughout 2024 will be to gain operational efficiencies through digital transformation, process improvement and scaling up the business through a growth strategy.

A.3 Investment Performance

2023 proved to be a positive year for investors, with most asset classes producing a positive return despite disruptions in the market due to rising interest rates and ongoing conflicts in Ukraine and Gaza. Our investment portfolio continues to be resilient and has generated a capital return of 4.9%, whilst outperforming most benchmarks over a longer period. Our investment portfolio, made up of collective funds and property, ended the year at £63,970,151 (2022: £55,027,281), coupled with cash equivalents and short term deposits of £12,225,522 (2022: £20,152,267) contributes to our extremely strong capital position. Dividend income received of £1,932,956 (2022: £1,654,580) was 17% higher than last year. The successful purchase of The Waterfront during the year also generated £501,525 of rental income.

Royal Standard House, our previous office space was successfully sold on 1 June 2023. The property listed on our Solvency II balance sheet, has been split between property owned for own use and investment property. The property owned for own use relates to the space occupied by Sovereign Health Care in The Waterfront to carry on day to day operations. The valuation under investment property relates to other units at The Waterfront, leased to other commercial tenants, with the view to realise rental income.

The Waterfront was professionally valued by Eddisons, Chartered Surveyors, on 11 January 2024. The valuation was made on an open market value basis by reference to market evidence of transaction prices for similar properties.

The Board are in agreement to continue investing in good quality equities through collective funds for the medium to long term, alongside a more defensive element provided by our cash and deposit holdings.

The table below sets out the investment performance from our group financial statements:

	2023	2022
	£000's	£000's
Investment Income - Net of fees	2,470	1,448
Interest Payable	-	-
Realised gain/(loss) on investments	2,128	8,404
Revaluation of investment property	(617)	114
Unrealised gain/(loss) on investments	513	(11,111)
Charitable donations and other charges	(1,583)	(574)
Net investment return	2,911	(1,719)

The dividend income is used to fund our charitable donations therefore is included in the above table.

B. SYSTEM OF GOVERNANCE

B.1 General governance arrangements

The Board is the governing body of the Company and establishes, monitors and controls a framework of prudential controls to advance the Company in its objectives. Generally, the Board ensures that the Company acts in accordance with prudent commercial principles, high ethical standards and otherwise strives to meet stakeholder expectations through maximising long-term value. The Board has delegated authority for the day to day operational management of the Company to the Executive team.

Sovereign Health Care continues to adopt the AFM Corporate Governance Code in an appropriate manner for the size and complexity of our organisation. The Board are of the opinion, all principles set out below were met:

- **Purpose and Leadership** - An effective board promotes the purpose of an organisation, and ensured that its values, strategy and culture align with that purpose.
- **Board Composition** - Effective board composition required an effective chair and a balance of skills, background, experience and knowledge with individual directors having sufficient capacity to make valuable contribution. The size of a board should be guided by the scales and complexity of the organisation.
- **Director Responsibilities** - The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.
- **Opportunity And Risk** - A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value and establish oversight for the identification and mitigation of risks.
- **Remuneration** - A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.
- **Stakeholder Relations and Engage** - Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

The responsibilities and functions of the Board include:

- Input into, and final approval of, the corporate strategy, including setting performance objectives and approving business plans and budgets
- Reviewing and guiding systems of risk management, internal control, ethical practice and legal compliance
- Monitoring both corporate performance and implementation of strategies and policies

- Approving major capital expenditure, leases, acquisitions, divestitures and monitoring capital management
- Ensuring suitability and integrity of both financial and all other reporting
- Ensuring suitability of policies and processes in important areas, including occupational safety and health, environment and legal compliance
- Enhancing and protecting the reputation of the Company

Matters which are specifically reserved for the Board include:

- Appointment and remuneration of the Chair
- Appointment and remuneration of Directors
- Establishment of Board subgroups and determining their membership and delegated authorities

To support Board effectiveness and efficiency, the Board has established the following subgroup:

- Commercial subgroup
- Remuneration subgroup
- Audit and Governance subgroup
- Risk and Compliance subgroup
- Community Programme subgroup

The Terms of Reference of each subgroup and their membership are reviewed periodically by the Board.

Board Remuneration

The Company operates a flat rate of remuneration for all non-executive Board members with no variable element. Executive Board members remuneration is determined by their individual contracts of employment. In response to the issuance of guidance on the relative levels of senior individuals within the Companies relative levels of fixed and/or variable remuneration the Company has in 2018 adjusted the bonus scheme and annual salaries of the appropriate employees in order that the variable element would be in line with the appropriate guidance.

The flat rate relative to non-executive directors provides simplicity and clarity on the levels of remuneration for the business. The Standard rate of remuneration is augmented for specific duties undertaken by non-executive members of the Board and the list of these additional duties eligible for remuneration may vary from time to time. A flat rate allowance for duties outside of the scope of individual roles and responsibilities has been agreed and is operated on a per day basis. Any variation would be subject to review and agreement by the Remuneration subgroup for presentation to the Board as a whole. Currently the role of Chair of the Board receives an additional remuneration allowance.

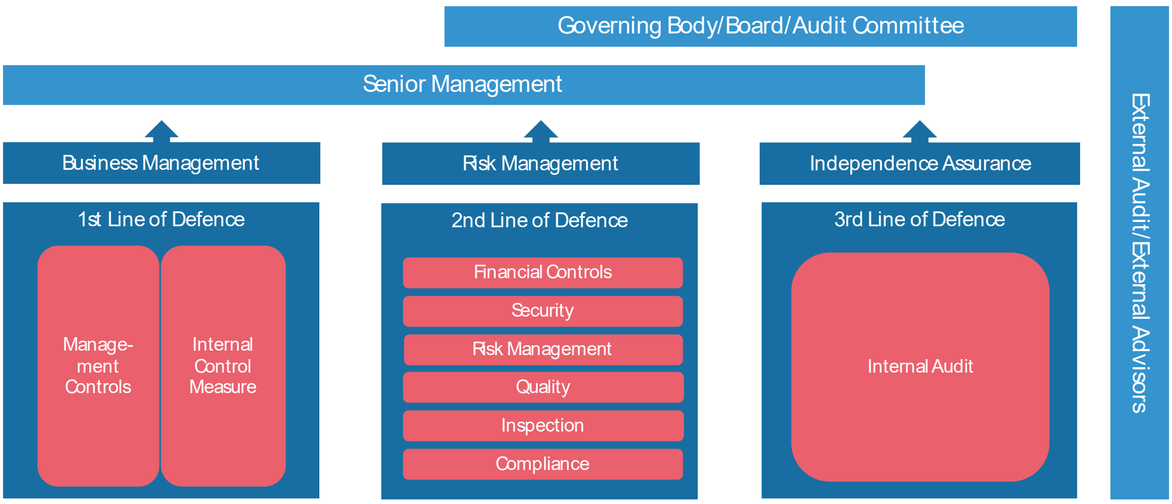
B.2 Fit and proper requirements

The 'Fit and proper' requirement is the standard required by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) when appointing controlled function holders. Sovereign applies the same requirements when appointing those who effectively run the undertaking or have other key functions. The Company is satisfied that compliance with the framework is sufficient to ensure that individuals fulfilling controlled functions meet all relevant regulatory requirements. The framework is regularly reviewed to ensure it will meet all the requirements of the Senior Managers and Certification Regime (SM&CR) and any subsequent changes in the regulatory requirements.

The Compliance function adopts appropriate systems and controls in the registration of individuals across the Company ensuring that identified individuals meet the regulators' fit and proper criteria at the point of registration and subsequently, including but not limited to external verification process and internal assessment. In addition, registered and notified individuals are required to complete an annual attestation confirming that the Fit and Proper Requirements have been maintained and that they continue to adhere to the Conduct Standards.

B.3 Risk management

As illustrated in the diagram below, Sovereign utilises the three lines of defence model in the management of its risks.



The model comprises primary risk owners (first line), independent risk management and control functions (second line) and an independent internal audit and assurance group (third line).

First line: The vast majority of employees comprise the first line of defence. Examples include service manager, technology teams supporting the business platforms, client servicing teams and servicing client enquiries.

Second line: A smaller group of employees comprise the second line of defence. These employees have duties within the Risk & Control functions and provide independent oversight of the activities performed within the first line.

Third line: The reporting from this function is direct to the chairs of both the Audit and Governance and/or the Risk and Compliance subgroups.

The Risk Management function reports to the Sovereign Board via the Audit and Governance and/or the Risk and Compliance subgroups.

Subgroup responsibilities

In addition to the Audit and Governance and the Risk and Compliance subgroups, the Board of Sovereign has delegated responsibilities to the Commercial subgroup, the Remuneration subgroup, and the Community Programme subgroup. Each of these groups have terms of reference which are risk focussed and each play a part in more formal upwards risk reporting on a quarterly basis.

The formal consideration and risk reporting of the subgroups is coordinated by the risk management function.

Risk and Capital Assessment

The risk management framework is designed to provide management with the information it requires to maximise up-side risk, whilst acknowledging downside risks, by identifying where capital should be held.

The Risk Management function will work closely with the actuarial function to ensure that assessment of risk is integral with the ORSA and that management are provided with clear information regarding the capital impact of the current risk profile. By doing so management will be able to determine where capital is being best deployed and will have a tool to support business decisions in relation to the utilisation of capital.

The Board recognises the importance of maintaining strong capital adequacy to ensure the on-going sustainability of Sovereign Health Care. The Board has agreed to hold a minimum of 200% of its Solvency Capital Requirement, and should any adverse scenario trigger this point, management actions are in place to re-evaluate, assess and consider the investment portfolio to maintain sufficient capital.

Own Risk and Solvency Assessment (ORSA)

The ORSA document provides a key pillar to the overall control and understanding of the business from the perspective of the Board.

The ORSA is updated on an annual basis, for approval in the first half of the year following the period into which it refers, i.e. the 31 December 2023 ORSA will be reviewed and approved by the Board prior to 31 July 2024.

The ORSA process will act as a trigger for management actions which the Board will review and authorise as required. Where risks are identified that are beyond the company's risk appetite, actions should be undertaken to bring these back within the defined acceptable levels. It is recognised that additional capital will not reduce the risk, it will only provide a financial buffer while management actions are sought to deal with the risks identified. Sovereign's risk management framework continues to evolve through enhanced modelling, monitoring and feedback and provides the basis for the Boards calculation of its own capital requirements within the business.

Ongoing monitoring of the key items highlighted within the ORSA forms part of Sovereign's Board meetings. However, it should be noted that the monitoring of risk and the management of the risks is built into the operations of the Company. Any deficiencies highlighted through this continual monitoring will be brought to the attention of the Executives for action, and where required the Board will be informed and/or asked to approve any resulting action where this falls outside of the current levels of delegated authority.

B.4 Internal control

The Board view an effective system of internal control as a key mechanism by which they discharge their fiduciary responsibilities.

Sovereign believes that a sound system of internal control helps safeguard Sovereign's assets by facilitating safe, reliable and efficient operations, by assisting us to comply with applicable laws and regulations, and by helping us ensure the reliability of our internal and external reporting.

All members of Sovereign's staff have a responsibility to ensure the effective application of internal controls in their areas of responsibility and to act in a way that safeguards our assets from loss, inappropriate use and fraud.

In addition, Article 46 of the Solvency II directive requires:

> "Insurance and reinsurance undertakings shall have in place an effective internal control system. This system shall at least include administrative and accounting procedures, an internal control framework, and appropriate reporting arrangements at all levels of the undertaking and a compliance function. "

The Board believes that sound internal control and corporate governance is best achieved by processes firmly embedded within Sovereign's operations. Reviewing the effectiveness of internal control is an essential part of the Board's responsibilities while management is accountable to the Board for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so.

The Board has agreed that aspects of its internal control review work shall be delegated to the Commercial Subgroup, the Audit and Governance Subgroup and the Risk and Compliance Subgroup.

Each subgroup shall report back to the Board who will decide on the adequacy of the subgroup's review. It is the Board's responsibility to establish the terms of reference of each subgroup.

In determining the Sovereign Policies and Procedures and thereby providing what constitutes Sovereign's system of internal control the Board considers the following factors:

- The Business Principles and related objectives
- The nature and extent of the risks facing the Company
- The extent and categories of risk which it regards as acceptable to bear
- The likelihood of the risks concerned materialising
- Sovereign's ability to reduce the incidence and impact on the business of risks that do materialise
- The costs of operating particular controls relative to the benefit thereby obtained in managing the related risks

The Company retain the services of an internal audit function in order that an independent third party view on the operation of key controls and the oversight of key service providers is maintained with the necessary levels of rigour. The internal audit function report on a day to day basis to the Finance Director, however they provide the formal reporting through to the Audit and Governance subgroup to ensure appropriate segregation and governance is maintained.

B.5 Internal audit

Sovereign develops an audit plan on a 3-year rolling basis. It will be derived by the Internal Auditor and the Audit and Governance subgroup with input from senior management and the Risk Management function. The internal audit program is then approved by the appropriate subgroup with timescales and prioritisation guidance being provided.

The audit approach is cyclical, risk based and ensures that all high-risk areas are identified and prioritised during the course of the ORSA process and internal risk mapping exercise. This ensures that the entire risk and audit universes are considered over time, unless there are appropriate and agreed reasons for them not being so. In practice this is achieved by reviewing the risk universe against the current audit plan and to highlight those areas of the risk universe that are either not covered, or where additional audit may be appropriate. This will be presented annually to the Audit and Governance Subgroup, and more frequently if required. As either the audit plan or risk universe is updated, the Risk Management function will be responsible for highlighting any material risks which are not covered by the current audit plan.

Due to the size of the business the internal audit process is outsourced to an appropriately qualified third party.

In order to maintain the appropriate level of independence Internal audit reporting is undertaken with a direct line of responsibility to the Chair of the Audit subgroup. The use of third parties in undertaking the work ensures an appropriate degree of separation from the day to day activity of the senior team within the business to ensure objectivity.

B.6 Actuarial function

The actuarial function is outsourced to a third party actuarial consulting practice along with the SMF20, Chief Actuarial Function. The actuarial function will present annually to the Audit and Governance subgroup to ensure the Solvency II calculations and underwriting policies are adequate and appropriate for Sovereign Health Care. Oversight of the requirements and deliverables is appointed to the Finance Director.

B.7 Outsourcing

Due to the size of the business a number of key functions have been outsourced in order that the business is able to benefit from appropriate current expertise without incurring the additional overhead that would be required to fulfil the function in house. All current outsourced service providers are located within the United Kingdom.

Outsourcing is considered appropriate where the business:

- does not have the required knowledge, resources and/or experience to fulfil a specific function from its own staff
- requires additional short term resource
- deems it is cost effective to outsource a specific service
- deems it is risk effective to outsource a specific service
- deems it is a legally or regulatory required arrangement
- deems it is to achieve a tangible quality outcome with regards a specific project

The following checks, where applicable, are undertaken when appointing any new outsourced partner;

- Financial health check
- Trade body
- References
- Legal review of contracts

Outsourced partners are reviewed periodically to ensure the arrangement continues to serve the best interests of the company and its customers. All key outsourced arrangements are subject to a formal contract and signed by at least one executive director. Where appropriate when the outsource arrangement is deemed material, the Board will approve.

The Board of the company are keen to remain focused on the areas where the company has expertise and not expand beyond our knowledge or capability, as such Sovereign will continue to focus on the provision of good value, simple, easy to use cash plans within the UK market.

C. RISK PROFILE

C.1 Underwriting risk

As a general insurer Sovereign Health Care writes short term monthly renewable contracts. These contracts individually and collectively present a relatively small financial risk when compared to the other key risks. However, as an insurer we do review, calculate and manage our potential insurance exposures and ensure that we hold sufficient capital in available cash in a mixture of immediately available, short term or longer term maturity deposits to ensure that sufficient cash will be available to meet the requirements of 12 months claims as they fall due.

Plans are priced on a community basis, utilising historical performance and claims data, with a number of additional assumptions built in the models. If policyholder behaviour, healthcare costs or any of the other underlying base assumptions change there is a risk that premiums will not be sufficient to meet the claims made.

The following measures are used to assess underwriting risks:

- **Claims modelling and experience** – based on experience, budgets are prepared for each product including expected claiming ratios. Product performance is monitored again this target claims ratio and deviations are investigated.
- **Market monitoring and tracking of claims trends** – cash plan claims are driven by behavioural factors. Claim trends, purchasing behaviours and other signs from the broader healthcare market are all monitored for indications that customer behaviours may deviate from the underwriting assumptions.
- **Monitoring of operational expenditure** – expenses are factored into the pricing strategy and underwriting assumptions. Variations in our operating expenses are monitored through management information and targeted through operational expense ratios.
- **Solvency II capital requirements** – under Solvency II we are required to assess and quantify the underwriting risk exposure through a mass accident and pandemic scenario.

The principal risk faced by the company is that actual claims and benefit payments exceed the premiums received for the insurance cover. This could occur because the frequency and severity of claims are greater than anticipated. Claim events for certain benefits can be random and the actual volume of claims received, and value of these claims could vary year on year.

All the Sovereign Health Care cash plan products are monthly renewable policies, required premium increase can be implemented with a short timescale, 30 days’ notice, enabling the risk that premiums are insufficient to cover claims and expenses to be controlled.

Concentration risk – key customers

The Company also acknowledges the risk of reliance on a small number of large volume clients and works closely with the relevant customer group to ensure that the offering available continues to meet the requirements. In addition there is an active renewal of supply contract process which serves to highlight potential issues and ensure these are addressed in a timely and appropriate manner.

As a business, the risk created due to the success of the product is not one which we would seek to move away from or limit on a single customer basis. Mitigation is sought through increasing the depth and breadth of the customer base to ensure that a single customer or small group of customers does not represent an unduly large proportion of the forecast income generation plans.

Insurance Premium Tax

As a general insurer, the premiums we charge for our products including Insurance Premium Tax (IPT). This indirect tax is then passed on to HMRC. In 1994, the introductory standard rate of IPT was just 2.5%. But over the years IPT has increased, to 6% in 2015, then 9.5% in November 2015, and in October 2016 it rose to 10%. Now the current rate of IPT is 12%. Some of the past increases have not been passed on to the end consumer, however with the more recent increases, we had no other option but to pass this on to our customers otherwise it would have had a detrimental impact on our operating profit.

We have lobbied regulators and the government through our trade association to highlight the consequences if they continue to raise the IPT rates. This risk is also included on our risk register.

C.2 Market risk

Investment Risk

Sovereign Health Care holds investments in collective funds, as 31 December 2023 these assets are held at fair value of £57.5m (2022: £54.2m). These investments are traded on regulated financial markets, both in the UK and abroad. Our investments are managed by an external specialist investment manager who are listed on the Financial Services Register and authorised and regulated by the FCA. Management of the investments is undertaken utilising the advice of third party wealth management professionals on a recommendation basis. Movements in the regulated markets can drive volatility within the valuation of these assets.

Under Solvency II, our investments are stressed on interest rate risk, equity risk, currency risk and concentration risk. The capital requirement relating to market risk equates to £25m (2022: £21.8m) and the Board are of the opinion we hold sufficient capital reserves to cover this risk charge as demonstrated by our Solvency II coverage ratio.

The Board recognises the significant influence of the valuation of the Company's investment portfolio on the SCR coverage levels, currently at 286% (2022: 326%). The Board will continue to review and consider the solvency position and coverage levels on a periodic basis, should the ratio drop to 200%, this would trigger the board to consider crystallisation of investment assets in order that the company maintain sufficient liquidity to meet 12 months cost of claims and operational expenses as they fall due.

With regard to the balance of the Company's investment reserves, the Board have set investment objectives that aim to ensure the long term sustainability of the business by achieving capital growth and strong income returns over the medium to long term through the careful management of our investments.

The Board recognises that the allocation of portfolio assets across broadly defined financial asset and sub-asset categories (a mixture of cash and fixed interest investments and investment funds) with varying degrees of risk and return is the most significant determinant of long-term investment returns and portfolio asset value stability. Diversification across and within asset classes is the primary means by which the Board expects the portfolio to avoid undue risk of large losses over long time periods.

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying returns earned on its investments in different asset classes. In the view of the Board, Sovereign is an investor with a long term investment horizon and can tolerate the attached short term investment risk to the portfolio.

The Board accepts the risk that actual returns may vary from objective across short periods of time. The investment manager shall act within a reasonable period of time to evaluate any variations and make recommendations to rebalance the portfolio.

On a periodic basis, independent investment management professionals are approached for current market trends, views on holdings and to act as a sense check and benchmark of the current advisers.

The Company understands the investment market will remain volatile throughout this period; however, we believe our portfolio is well diversified and balanced, between growth and value stocks, adding a certain degree of reassurance through these turbulent times. As stated previously, our objective to invest over a medium to long term time horizon means we can tolerate market shocks. This approach coupled with holding an appropriate level of liquid assets, will act to protect the Company's strong capital position.

Financial Risks of Climate Change

Our investment strategy is focussed on delivering medium to long term growth whilst creating sufficient dividend income to fund the community funding programme. The Board accept there is an element of financial risk relating to climate change, specifically transition risk associated with investing into collective funds. Our collective funds, valued at £57.5m, present the largest risk. The Board have opted for an engagement strategy with our asset managers, and our investment advisors are in continuous talks with the fund managers to discuss environmental, social and governance (ESG) consideration as well as performance.

Through the Commercial sub-group and the Board, our investment advisors present ESG ratings for each collective fund including the following measures:

- Peer rank
- Global rank
- % of "green" revenue
- % of "brown" revenue
- Carbon intensity figure
- Carbon intensity figure (CIF) band
- Overall ESG rating

Of our current portfolio, 2% of the underlying companies held by each fund, are rated B or below, using the MSCI ESG data. 58% of the portfolio's companies are rated ESG leaders, with ratings of AA to AAA. The active asset managers within our portfolio all prefer sustainable business models and good governance, and with the increasing focus on ESG considerations, the Directors were pleased these funds produced above average ratings as a result.

With active engagement, rather than an exclusion mandate, the focus is on evaluating and monitoring effective risk management of climate change whilst keeping ESG ratings as an indicator.

The appropriate director has been allocated the responsibility of managing the financial risks of climate change and their statement of responsibilities have been updated accordingly. These risks identified will be continually monitored across multiple subgroups including:

- Commercial
- Audit and Governance
- Risk and Compliance

Having regard to the nature of our strategic plans, the Board does not consider climate change to be of significant risk in the medium term but continues to monitor and manage any risks that arise. The Group monitors ongoing developments to ensure understanding of the effects of climate change are appropriately reflected in our strategic plans and ORSA, if deemed a material.

C.3 Credit Risk

The company's exposure to credit risk is not limited to the balances identified in the liquidity risk section, but also covers the carrying value of certain other financial assets, namely contributors' premiums due but not received (included within debtors) of £645k (2022: £459k).

The Board adopts a low risk appetite by holding high levels of cash or cash equivalents in order to meet any unplanned or catastrophic risks/events. Currently the Board have agreed to hold cash balances equivalent to the greater amount of:

a) our Minimum Capital Requirement (MCR) (£6.7m) or
b) 12 months forecast claims payments (£7.7m).

Cash is held in a variety of instant access, term and notice accounts in order to achieve the correct balance of liquidity needs and desired investment returns. Cash investments are also used as a hedge against insurance/operational risk and for liquidity needs or to facilitate a planned programme of investments in either or both equity and fixed income assets.

Debt instruments held with credit institutions, including term cash deposits are managed internally. Balances are placed on deposit for periods of up to 12 months in such a manner to ensure that sufficient funds are always available to meet the short term operational expenditure, investment decisions and any other liabilities as they fall due. On the Solvency II balance sheet, total deposits and cash equivalents of £10.2m (2022: £19m) are held with a number of counterparties and different terms.

The company is therefore exposed to risk in relation to the counterparties availability of funds to meet the terms of the deposits as they fall due. This risk is managed through the careful selection of counterparties and the use of credit rating agency view of potential partners and the operation of the counterparty risk policy within the business, limiting the exposure to any specific party and the overall risk at each level of credit rating.

Credit ratings for credit institutions who are deemed as material counterparties are rated between AA and BBB and are consistent with the Solvency II reporting requirements in calculating the Solvency Capital Requirement.

C.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company is exposed to liquidity risk in meeting operating costs as represented by the creditors other than technical provisions within the Solvency II balance sheet totalling £1.5m (2022: £0.9m), and in meeting policyholder claims, represented on the year-end group statement of financial position by the provision for outstanding claims totalling £0.7m (2022: £0.7m). Both of these exposures are due within 12 months of the statement of financial position date, and in particular the large majority of claims represented by the technical provisions are generally settled within 3 months. The creditors other than technical provisions includes a contingent liability of £150k representing the net liabilities of wholly owned subsidiary companies.

The Company seeks to mitigate liquidity risk by holding cash reserves which at any one time enable financial liabilities to be met for at least a month. Details on the cash reserves have been outlines in the credit risk section.

C.5 Operational risk

Operational risk relates to the risk of loss resulting from inadequate or failing internal processes, people and systems or from external events such as natural disaster or terrorist attacks.

Operational disruptions can cause wide reaching harm to our customers and to the Company. Operational resilience remains a key focus for Sovereign Health Care, considering the impacts of the pandemic, in addition to the regulators consultation papers on building operational resilience within the UK financial sector. Sovereign Health Care has completed the initial work in line with the regulatory requirements, however, the Company foresee this has an evolutionary process, a continuous cycle, always learning and developing our response to disruptions.

Operational risks are recorded on Sovereign Health Care's risk register. The material areas of risk are highlighted below:

- Systems and Infrastructure
- Cyber security
- Outsourcing arrangements
- People

Systems and Infrastructure

Significant time and expense have been incurred over the years to strengthen our core IT infrastructure. Our IT infrastructure is located across three sites, including a specialised co-located data centre and utilisation of a cloud-based service to add extra resilience. Our infrastructure is regularly reviewed and tested, including the testing of backups and recovery of data. Our computer servers that support our systems and applications are hosted at an ISO-27001 co-location datacentre, where they are protected by uninterruptable battery/generator backup power supplier, monitoring cooling and fire systems.

User access to the systems is provided by a technology called Remote Desktop Services. This allows Sovereign Health Care to control and manage our systems. The remote desktop can be accessed from the office or from home, with a secure internet connection. The system is also protected by controlling access through Multi-Factor Authentication (MFA). Our systems are also protected by real-time threats using anti-virus software, firewall technologies and systems monitoring.

Our telephony system is provided by a close service provider and allows access from any location. This allows for calls to be made and received without having the need to be in the office.

Previously, we also had a contract for workplace recovery site, should for any reason, our registered office was out of use, however in light of the pandemic and ability to work from home, this recovery site is no longer contracted as operations can run remotely with little or no impact on our customers. An area of focus for 2024 is to ensure our business continuity plans are continually tested and documented to demonstrate our operational resilience.

All our systems are protected by daily backups, giving the Company four copies of our production data in at last three locations. Our production servers are also replicated, using a cloud based datacentre, every 10 minutes. Maintaining cloud backups allows the Company to restore our live environment in the event of complete server or co-location site failure.

Cyber security and data security

IT failure could lead to significant issues, for example system downtime, lost productivity and data corruption, theft or loss. Cyber security continues to be a key focus for the business, commissioning a Cyber Security Audit during 2022 and from the audit findings, we gained the government backed accreditation Cyber Essential and Cyber Essential Plus in the first quarter of 2023.

Information Security, Data Protection and Computer Policies are all in place, frequently reviewed and training provided to all staff. The Company also holds a comprehensive cyber insurance policy.

Outsourcing arrangements

We value all our business relationship and have contracts with our key suppliers and outsourcing arrangements. Through strong and actively engaged relationships we can ensure our operational activities work efficiently and effectively, with no or little operational disruption.

People

Inevitably, as a small insurer, a degree of reliance exists on key personnel, whose departure from the Company could increase the risk of processes operating effectively. There can be key person dependency in areas where experience and/or knowledge is very difficult to replace in the short term. This means loss of key personnel is recorded on our Company risk register. This risk is mitigated by strong staff development programmes and succession planning across the whole business. Core processes are documented across all areas, so other staff members can perform the processes if necessary.

D. VALUATION FOR SOLVENCY II PURPOSES

Solvency II requires assets and liabilities to be valued on market-consistent basis, whilst Sovereign Health Care's financial statements are prepared on the basis of UK GAAP. Whilst the two reporting regimes are very similar, there are some inconsistencies, therefore certain adjustments are required to comply with the requirements of Solvency II.

The assumptions and basis of valuation of each material category of business is considered separately where they differ from the statutory reporting valuation processes. As a general principle the value of a balance sheet item should reflect the amount at which the assets and liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction.

All valuations should be made on a going concern principle, rather than a "fire sale" or insolvency valuation which by the very nature of the approach would deliver higher liability and lower asset values.

The table below identifies the changes in valuation that move the Company from its reported UK GAAP Report and Accounts Retained Earning to the Solvency II Own Funds.

	2023			2022		
	£	£	£	£	£	£
UK Statutory Retained Earnings			**76,618,935**			**75,448,740**
Property, for own use valuation change	167,203			-		
Transfer to property investment	6,513,664			-		
Participations	928,976			893,880		
Transfer out of cash and cash equivalents	(17,329)			(10,700)		
Transfer of cash into deposits other than cash and cash equivalents	-			-		
Change in valuation basis of other assets	(7,896,512)			(1,143,682)		
Change in assets		(303,998)			(260,502)	
Removal to technical provisions	1,077,212			1,052,727		
Best estimate liabilities	(896,864)			(735,019)		
Risk margin	(132,048)			(146,625)		
Change in valuation basis of other liabilities	(149,469)			(21,587)		
Deferred tax liabilites	-			-		
Change in liabilities		(101,169)			149,496	
Net change			(405,167)			(111,006)
Solvency II Own Funds			**76,213,768**			**75,337,735**

The full Solvency II balance sheet is presented in the template S.02.01 in the Appendix.

D.1 Assets

The table below details the assets of the UK GAAP balance sheet prepared under FRS 102 and how the valuation methodology differs under the valuation basis for the preparation of the Solvency II balance sheet.

Category of Asset	SII Valuation Basis
Deferred Tax Asset	A deferred tax asset or liability arises on the temporary difference between the valuation of assets and liabilities (including technical provisions) for the statutory financial statements. The deferred tax asset reflects the associated reduction in tax liability that would arise on the results for the company should the higher Solvency II best estimate of liability (over the statutory technical provisions) ever be realised.
Intangible Assets	Write down any value to £Nil to reflect estimated fair market value
Property, Plant and Equipment	Property value adjusted to reflect fair market value. Plant and Equipment write down any value to £Nil.
Holdings in related undertakings, including participations	All participations will be held an adjusted equity valuation on a solvency II basis. No adjustments are made to arrive at the adjusted equity valuation from the UK statutory accounts valuation of participations for Sovereign Health Care as the assets and liabilities of the subsidiaries are either fair value, or deemed to be fair value and no inadmissible assets are held.
Investment property, collective investments undertakings and equities	This includes all financial investments except subsidiaries (these are brought in through participations). All investments are measured at fair value with adjustments through the profit and loss. The methodologies applied to determination of fair value holdings are: 1. Listed/quoted investments are carried at market bid value; 2. Where no quoted market price or suitable proxy is available, alternative valuation methods are used in accordance with Article 10 of the Delegated Regulation 2015/35. The vast majority of the assets held are valued using methodology 1.
Financial Receivables inc. Insurance Receivables	This covers: • Amounts owed from policyholders. • Debtors are reflected at book value which is deemed equivalent to fair value equivalent due to short duration of the assets held. The company operates a provision mechanism for debts in excess of 3 months.
Cash and cash equivalents and deposits other than cash equivalents	No change in valuation methodology. The presentation under cash and cash equivalents or deposits other than cash equivalents is determined by the ability to withdraw balances within twenty four hours without incurring a penalty (instant access).
Any other assets, not elsewhere shown	Assets are held at fair value or equivalent due to short duration of the assets held.

The table below sets out, by material asset class, the valuation of each category under both Solvency II and UK GAAP statutory account reported balances:

	2023 Solvency II £	2023 Statutory £
Property, plant & equipment held for own use	1,086,336	919,133
Holdings in related undertakings, including participations	939,176	10,200
Property investment	6,513,664	-
Equities - unlisted	2,519	2,519
Collective fund investments	57,456,488	57,456,488
Deposits other than cash equivalents	5,233,283	5,233,283
Insurance and intermediaries receivables	644,895	644,895
Receivables (not insurance)	870,747	8,470,748
Cash and cash equivalents	5,005,656	5,022,985
Any other assets, not elsewhere shown	1,207,749	1,504,261
Total assets	**78,960,513**	**79,264,511**

D.2 Technical provisions

The technical provisions comprise two elements the best estimate of current liabilities and a Solvency II risk margin. The balances of the technical provisions under both Solvency II and UK GAAP statutory account reported balances are as follows:

	2023 Solvency II £	2023 Statutory £
Best Estimate	896,864	-
Risk margin	132,048	-
Technical provisions	-	1,077,212
Total technical provisions	**1,028,913**	**1,077,212**

The liabilities valued in the technical provisions are those associated with existing contracts as at 31 December 2023. Under Solvency II, contracts must be valued if there is a legal obligation to provide cover even if the commencement date of the policy is after the valuation date.

The Solvency II technical provisions are designed to reflect the amount a third-party insurer would be paid to accept the liabilities at the valuation date. The technical provisions are calculated as the sum of the best estimate and the risk margin. The best estimate is the sum of the premium provision and claims provision. The premium provision and claims provision are calculated separately.

The premium provision is established in respect of unearned exposure (i.e. exposure after the valuation date) and the claims provision is established in respect of earned exposure (i.e. claims which have occurred prior to the valuation date). Within the premium provision, future premium income can be offset against future claim and expense outgo as the calculations are performed on a cash-flow basis. If future cash inflows are expected to be greater than future cash outflows the premium provision will be negative.

The unearned exposure used in the premium provision calculation includes those policies for which an unearned premium reserve is held as at 31 December 2023. This reserve relates to those policies which have paid their premium in advance in return for cover over a longer period than one month.

The premium provision also assumes there is, on average, one month of premium earnings outstanding at the valuation date. This is a reasonable assumption, given that most of the policies in force are monthly renewable and the company has the right to reprice and cancel the cover. This additional one month of cover and one month's additional premium has been included in the calculation to reflect the fact that the company must give the policyholder 30 days' notice of cancellation.

The expected claim cash flow used in the premium provision is calculated by applying a loss ratio to the future earnings which reflects the expected losses incurred in the month after the valuation date. Given the short timescales, it is appropriate to use a loss ratio calculated using recent company history. An allocation of expenses is applied which reflects the cost of handling the future claim payments associated with the unearned exposure at the valuation date.

The claims provision calculation uses outputs from the audited year-end Incurred But Not Reported (IBNR) process to project the expected future claim payments for claims which have occurred prior to the valuation date. The expected future claims payments are set equal to the claims provision in the financial statements as this represents the firm's best estimate of future claim cash flow. The claims provision is the sum of the expected claim payments and the associated claims handling expenses. The cash flows are not discounted currently since the average duration of the payments is less than 3 months after the valuation date.

The Risk Margin is calculated as the cost of capital the third party insurer would require taking on the liabilities and is calculated as 4% of the SCR for existing business.

Both the best estimate technical provision and risk margin contain an in built level of uncertainty within the calculation of the balance due to the estimated nature of the potential future liabilities of the business. Given the relatively small value of the best estimate technical provisions within the context of the total SCR and the volume of historical data available, the levels of uncertainty within the balance are deemed to be low.

In the calculation of the Best Estimate of the liabilities no allowance has been made for any of the transitional adjustments set out in the Delegated acts. We have made no adjustment for matching or volatility in the risk free rate or any transitional adjustments to overall technical provisions.

When viewing the difference between the UK Statutory Balance sheet value and the Solvency II technical provisions the key differences relate to:

- Replacement of unearned premium reserve with best estimate of future premium income;
- Solvency II Risk Margin; and
- Requirement to hold reserves to meet the costs of processing claims in the subsequent period

When considering the overall value of the technical provisions the business has viewed any events that may fall outside of the standard modelling of our required provisions to meet future insurance liabilities and concluded that these values are immaterial.

The Board consider the calculation of the technical provisions to be in line with the requirements of the Solvency II Regulations.

D.3 Other liabilities

The table below details other liabilities, other than technical provisions, of the UK GAAP balance sheet prepared under FRS 102 and how the valuation methodology differs under the valuation basis for the preparation of the Solvency II balance sheet.

Category of Liabilities	SII Valuation Basis
Contingent Liabilities	The balance represents the excess of liabilities over assets of a wholly owned subsidiary that has a negative net asset value.
Other Provisions	Other provisions represent amounts expected to be paid and are held at fair value.
Payables (trade)	Amounts expected to be paid (including taxation), liabilities are reflected at book value which is deemed equivalent to fair value equivalent due to short duration.
Other Liabilities	Amounts expected to be paid not shown elsewhere, liabilities are reflected at book value which is deemed equivalent to fair value equivalent due to short duration.

The table below sets out, by material liability class, the valuation of each category under both Solvency II and UK GAAP statutory account reported balances:

	Solvency II	Statutory
	£	£
Contingent liabilities	149,469	-
Provisions other than technical provisions	99,535	99,535
Deferred tax liabilities	196,603	196,603
Insurance & intermediaries payables	38,566	38,566
Payables (trade, not insurance)	129,226	129,226
Any other liabilities, not elsewhere shown	1,104,434	1,104,434
Total other liabilities	**1,717,832**	**1,568,363**

E. CAPITAL MANAGEMENT

Capital management focuses on two main elements:

- Ensuring that the company holds sufficient capital to ensure coverage of regulatory capital requirements (Minimum Capital Requirement (MCR) and SCR) over the foreseeable planning horizon (currently a 3 yearly cycle); and
- Optimisation of the quality of capital available (as all capital currently held is historical retained earnings, other than deferred tax assets, this is the highest quality available under Solvency II)

E.1 Own funds

Sovereign Health Care has no shareholders and therefore our capital originates from retained earnings. Own Funds remain a combination the historical retained earnings. The excess of assets over liabilities on the Solvency II balance sheet forms the reconciliation reserve:

	2023	2022
	£	£
Excess of assets over liabilities	76,213,768	75,337,735
Other basic own fund items	-	-
Reconciliation reserve	76,213,768	75,337,735

Under Solvency II, own funds are classified into three tiers according to their ability to absorb losses, and only a limited proportion of own funds from the lower tiers can used to cover the Solvency Capital Requirement or Minimum Capital Requirement.

All of Sovereign Health Care's capital in the Solvency II Balance sheet is classed as Tier 1, this highest quality of capital. This is eligible to cover both the SCR and MCR. As at 31 December 2023, Sovereign Health Care has no deferred tax assets, which would be classed as Teir 3 capital, the lowest quality capital.

E.2 MCR and SCR

Sovereign Health Care fully complies with the Standard Formula in the calculation of both the MCR and SCR. No material simplified methods or undertaking specific parameters have been used in the calculation of either the MCR or SCR. A detailed review of the assumptions within the model were undertaken and these were found to be appropriate for the firm. Set out below is a summary of our Retained Earnings/Own Funds, the MCR and SCR together with coverage ratios:

Own Funds/Retained Earnings	Solvency II £	UK GAAP £	Appendix Reference
At 31 December 2023	76,213,768	76,618,935	s.23.01.b
Minimum Capital Requirement	6,672,384		s.23.01.b
Solvency Capital Requirement	26,689,536		s.23.01.b/s.25.01.b
SCR coverage ratio	286%		s.23.01.b

The MCR, calculated using the standard formula, is detailed below:

Overall MCR calculation	2023 £	2022 £	Appendix Reference
Linear MCR	509,967	501,551	s.28.01.b
SCR	26,689,536	23,087,951	s.28.01.b
MCR cap	12,010,291	10,389,578	s.28.01.b
MCR floor	6,672,384	5,771,988	s.28.01.b
Combined MCR	6,672,384	5,771,988	s.28.01.b
Absolute floor of the MCR	2,358,882	2,325,105	s.28.01.b
Minimum Capital Requirement	**6,672,384**	**5,771,988**	

The SCR, calculated using the standard formula, detailed below:

	31-Dec-23	31-Dec-22
	Capital Requirements	Capital Requirements
Risk Component		
Basic Operational Risk Charge	**299,512**	**299,477**
Interest Rate Risk	57,498	4,019
Equity Risk	18,031,789	17,339,421
Property Risk	1,437,264	144,187
Spread Risk	843,360	-
Currency Risk	4,649,800	4,273,802
Concentration Risk	979	350
Market Risk	**25,020,689**	**21,761,780**
Counterparty Risk	**1,450,297**	**1,362,906**
Health Underwriting Risk	**3,074,826**	**2,122,895**
Overall Diversification	**(3,155,789)**	**(2,459,108)**
Solvency Capital Requirement	**26,689,536**	**23,087,951**

Risk Sensitivity and Solvency II impact

We are strongly capitalised with a Solvency II capital surplus of £49.5m (2022: £52.2m) representing a solvency cover ratio of 286% (2022: 326%). Capital requirements have increased by £3.6m as a direct result of the increased market gain on our investment funds in addition to an increase in property valuation under the market risk module;

	2023	2022
Own Funds	76,213,768	75,337,735
Solvency Capital Requirement (SCR)	26,689,536	23,087,951
Solvency II Capital Surplus	49,524,232	52,249,784
Solvency Capital Ratio	286%	326%

The SCR of £26.7m would change by an amount equal or opposite to 16% or less following a:

- 20% rise or fall in equities (surplus would increase by £10m/decrease by £10m respectively), or
- 100% rise in the volume of insurance underwritten (surplus would reduce by less than £781k)

E.3 Other disclosures

Use of Duration based Equity Risk Sub module in the calculation of the SCR

The duration based equity risk sub module has not been used in the calculation of the SCR.

Difference between Standard Formula and any Internal Model used

No internal or partial internal model has been used in the calculation of the SCR.

Non Compliance with MCR and SCR

The company has maintained Own Funds in excess of the MCR and the SCR throughout the reporting period.

APPENDIX – QUANTITATIVE REPORTING TEMPLATES

Sovereign Health Care

Solvency and Financial Condition Report

Disclosures

31 December

2023

(Monetary amounts in GBP thousands)

General information

Undertaking name	Sovereign Health Care
Undertaking identification code	213800PGKJQYRABOJQ62
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2023
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: Non-life insurance and reinsurance obligations
S.05.02.01 - Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	1,086
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	70,145
R0080	*Property (other than for own use)*	6,514
R0090	*Holdings in related undertakings, including participations*	939
R0100	*Equities*	3
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	3
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	57,456
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	5,233
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	0
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	645
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	871
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	5,006
R0420	Any other assets, not elsewhere shown	1,208
R0500	**Total assets**	78,961

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	1,029
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	1,029
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	897
R0590	*Risk margin*	132
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	149
R0750	Provisions other than technical provisions	100
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	197
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	39
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	129
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1,104
R0900	**Total liabilities**	2,747
R1000	**Excess of assets over liabilities**	76,214

S.05.01.02

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		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	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	9,954																9,954
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share																	0
R0200	Net	9,954																9,954
	Premiums earned																	
R0210	Gross - Direct Business	9,984																9,984
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share																	0
R0300	Net	9,984																9,984
	Claims incurred																	
R0310	Gross - Direct Business	7,797																7,797
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share																	0
R0400	Net	7,797																7,797
	Changes in other technical provisions																	
R0410	Gross - Direct Business	2																2
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	2																2
R0550	**Expenses incurred**	4,389																4,389
R1200	**Other expenses**																	
R1300	**Total expenses**																	4,389

S.05.02.01

Premiums, claims and expenses by country: Non-life insurance and reisurance obligations

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	9,954						9,954
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share							0
R0200	Net	9,954						9,954
	Premiums earned							
R0210	Gross - Direct Business	9,984						9,984
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share							0
R0300	Net	9,984						9,984
	Claims incurred							
R0310	Gross - Direct Business	7,797						7,797
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share							0
R0400	Net	7,797						7,797
	Changes in other technical provisions							
R0410	Gross - Direct Business	2						2
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	2						2
R0550	**Expenses incurred**	4,389						4,389
R1200	**Other expenses**							
R1300	**Total expenses**							4,389

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Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		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	Total Non-Life obligation
		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
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	132																132
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0150	**Net Best Estimate of Premium Provisions**	132																132
	Claims provisions																	
R0160	Gross	765																765
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0250	**Net Best Estimate of Claims Provisions**	765																765
R0260	**Total best estimate - gross**	897																897
R0270	**Total best estimate - net**	897																897
R0280	**Risk margin**	132																132
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**	1,029																1,029
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	0																0
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	1,029																1,029

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Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	-9	6,459	661	0	0	0	0	0	0	0	0		0	7,121
R0170	-8	6,507	585	0	0	0	0	0	0	0			0	7,092
R0180	-7	6,535	704	0	0	0	0	0	0				0	7,240
R0190	-6	6,520	625	0	0	0	0	0					0	7,145
R0200	-5	6,627	641	0	0	0	0						0	7,268
R0210	-4	7,011	652	0	0	0							0	7,663
R0220	-3	4,862	508	0	0								0	5,371
R0230	-2	6,197	624	0									0	6,821
R0240	-1	6,231	662										662	6,893
R0250	0	7,082											7,082	7,082
R0260												Total	7,745	69,696

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	-9	0	0	0	0	0	0	0	0	0	0		0
R0170	-8	0	0	0	0	0	0	0	0	0			0
R0180	-7	0	0	0	0	0	0	0	0				0
R0190	-6	0	0	0	0	0	0	0					0
R0200	-5	0	0	0	0	0	0						0
R0210	-4	0	0	0	0	0							0
R0220	-3	0	0	0	0								0
R0230	-2	0	0	0									0
R0240	-1	0	0										0
R0250	0	0											0
R0260												Total	0

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Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	76,214	76,214			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
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**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	76,214	76,214	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	76,214	76,214	0	0	0
R0510	Total available own funds to meet the MCR	76,214	76,214	0	0	
R0540	Total eligible own funds to meet the SCR	76,214	76,214	0	0	0
R0550	Total eligible own funds to meet the MCR	76,214	76,214	0	0	
R0580	**SCR**	26,690				
R0600	**MCR**	6,672				
R0620	**Ratio of Eligible own funds to SCR**	285.56%				
R0640	**Ratio of Eligible own funds to MCR**	1142.23%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	76,214
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	76,214
	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)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	25,021		
R0020	Counterparty default risk	1,450		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	3,075		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-3,156		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	26,390		

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	300
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	26,690
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	26,690
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

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	C0010
R0010	MCR_{NL} Result	510

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	897	9,954
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	0	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	510
R0310	SCR	26,690
R0320	MCR cap	12,010
R0330	MCR floor	6,672
R0340	Combined MCR	6,672
R0350	Absolute floor of the MCR	2,359
R0400	**Minimum Capital Requirement**	6,672