Sovereign Health Care

Sovereign Health Care

Solvency and Financial Condition Report for the year ending 31 December 2024

TABLE OF CONTENT

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 UK 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 31st March 2025.

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 build sustainable growth through our customer numbers
- To improve our operational sustainability through process optimisation and digital transformation
- To deliver value for money and useable products to its customers
- Continue to impact our wider community by aiming to donate £500,000 each year to health and wellbeing charities that align to our purpose

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 equitable 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 £7.6m in benefits to our customers.

Sovereign Health Care is proud of its long history of charitable giving, which is made possible because we are a not for profit business and have no shareholders. Subject to having sufficient capital funds available, we aim to donate £500,000 per annum to community or charitable initiatives with a health and wellbeing focus.

We have always been based in the Bradford District, rich in history and culture but one with areas of serious deprivation and structural health inequalities, as highlighted in national public health reports over many years.

A.1.1 Our purpose, vision and values

We believe better health is for everyone, and our purpose is to help people achieve this. Sovereign Health Care has been part of improving health care for over 150 years. Our vision, which is purpose linked, is to sustainably grow our importance in driving better health care in our local communities and for customers in our chosen markets for the long term. Our values create a shared sense of purpose and strengthens our company culture which shapes our identity, drives success and creates a workplace where our people feel they can contribute and make a difference.

<table>
<tr><th colspan="4">We believe better health is for everyone and our purpose is to help people achieve this</th></tr>
<tr><td rowspan="2">Business Focus
We believe in Sovereign Health Care</td><td colspan="3">Customer Focus
Above all, we are customer focused</td></tr>
<tr><td>Team Focus
We work hard for each other</td><td>Personal Focus
We do the right thing</td><td>Future Focus
We are always improving</td></tr>
</table>

Above all we are customer focused - We respect our customers' decision to buy from us and strive to meet their expectations. We care about our customers and stakeholders and want to help them achieve their health goals.

We believe in Sovereign Health Care - We believe better health is for everyone and that we have an important role to play in making this happen. We are passionate about the purpose of this business, and our impact on the lives of customers and the community. We are proud to call Bradford and West Yorkshire our home and value this area as the backbone of our success.

We work hard for each other - We hold ourselves and others accountable for the quality of our work and challenge each other to make the team better. We share our knowledge and expertise and welcome new ideas. We motivate each other to achieve our potential and deliver the purpose of Sovereign Health Care.

We do the right thing - We take responsibility for the work we do. We have the confidence to think for ourselves, ask questions, seek feedback, and enable colleagues to do the same. We trust each other and challenge ourselves to do the right thing.

We are always improving - We value looking ahead, preparing for the future and striving to be better. We are curious to learn, improve our skills, solve problems, and overcome challenges, and we suggest ideas to make our work, service, and culture better.

A.1.2 Executive summary on 2024 performance

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

	2024	2023
	£000's	£000's
Earned income		
Net earned premiums	10,981	9,984
Net commissions received	61	61
Claims incurred	(8,477)	(7,976)
Operational expenses	(4,122)	(3,904)
Underwriting result	**(1,558)**	**(1,835)**
Investment income - net of fees	2,677	2,497
Interest payable	-	-
Realised gain/(loss) on investments	1,303	2,128
Revaluation of land and buildings	(290)	(617)
Unrealised gain/(loss) on investments	2,004	513
Charitable donations and other charges	(972)	(1,583)
Surplus/(deficit) before taxation	**3,164**	**1,104**

Sovereign Health Care continued to uphold its commitment and promise in supporting our customers' health and wellbeing through our health care cash plans and charitable donations to our wider community. In 2024 our focus was to build on a solid foundation and strengthen our capability to enhance our products and services and position the company for sustainable growth all while ensuring financial stability and regulatory compliance.

An integral part of 2024 was completing the product reviews with the continued back drop of the inflationary pressures on both claim values and operational expenses. Any customer price increases are made with careful consideration, as it's never easy to convey this message externally, however we believe our prices are fair, reflecting the growth in claims demand whilst enabling us to maintain and improve our exceptional services throughout the customer journey.

We achieved a record high in claims paid, handling over 191,000 claims and paying £8.2m (2023: £7.7m) to our customers whilst claims paid in the year were processing on average 2.5 days (2023: 3.5 days) after the date we received them. This reinforces our dedication to providing financial support to our customers, especially through ongoing economic challenges.

Another great accomplishment was recording our best ever year in new business sales. Our sales volumes achieved 108% to target and new business annualised premium equivalent achieved 117% of our business plan. During the year we experienced a small drop in policyholder numbers, however this also outperformed our financial plan considering the circumstances of the product reviews mentioned earlier. Over the next 3-5 years we will be focused on a growth strategy whilst maintaining a profitable insurance business.

We made significant progress in embedding the principles of Consumer Duty into our everyday operations ensuring delivery of good customer outcomes remains at the heart of everything we do, above all, we are customer focused. The incredible work involved reviewing and enhancing our products and services, and customer interactions to ensure we meet our duty to be fair, transparent and provide good value. We improved our governance framework, provided staff training and implemented robust monitoring to track and enhance customer experience.

Maintaining a robust risk management framework remains a cornerstone of our operations. In 2024, we concluded a comprehensive review of our governance and risk framework, ensuring alignment with the latest regulatory requirements and industry best practices. Our internal controls and governance structures have been strengthened to mitigate potential risks effectively.

2024 represented a significant evolution in our investment strategy by gradually altering our asset allocation with our portfolio derisk our investments to provide a more defensive position should predicted market volatility and fluctuations occur through into 2025.

Our investment income plays a huge part in our long history of charitable giving, allowing the community programme to support and give back to initiatives with a health and wellbeing focus. We have always been based in the Bradford district, rich in history and culture but one with areas of serious deprivation and structural health inequalities. This year, we gifted £476,045 (2023: £1,513,388) to support local health initiatives, charities and community projects. Our employees also participated in volunteer programmes, demonstrating our collective dedication to making a positive impact on our community.

We are incredibly proud of our achievements this year, particularly with the new business sales and record high claims payouts, which reflect the trust our customers place in us. Building on the momentum of 2024, we enter 2025 with a clear focus – providing value for our customers whilst ensuring longevity of our business heritage.

A.1.3 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

Over the past years, underwriting performance has declined driven by economy circumstances. The wider economy has had a significant impact on the provision of health care cover, influencing both affordability and demand. Economic pressures, such as inflation and the rise in living costs, have made health care less accessible for some individuals and businesses, leading to downgrades and cancellations. At the same time, economic uncertainty has driven increased demand for health insurance, as people seek financial protection against medical expenses. Additionally, higher medical inflation and supply chain disruptions have pushed up health care costs, leading to increased claims and premium adjustments. The Board are committed to providing value for our customers whilst ensuring the longevity of our business. Therefore, we are aiming to improve the trading position in a controlled manner through our strategic business plan which is focused on the objective of being a sustainable business relative to our not-for-profit status. We recognise our strong capital adequacy provides the resilience required to cover short-term losses without impacting out solvency coverage ratio as we work to improve the position in a measured manner. The financial strength of the business underpins our confidence in delivering our strategic initiatives and we are focused on maintaining the right balance between addressing immediate challenges and driving long term success within our business.

Please see the table below for the key business performance indicators linked to our underwriting performance:

	2024	2023
Earned income and commissions	11,042	10,045
Claims loss ratio	75%	78%
Operational expense ratio	37%	39%
Combined ratio	114%	118%

Earned premium

Net earned premiums increased by 10% driven by our product review project and incredible new business sale year. Net earned premiums of £10,981,094 (2023: £9,983,726) bettered our financial plan, and although member numbers decreased, this was expected due to our pricing strategy change to ensure equitable and fair value consumer products. Retention is a clear priority over the upcoming years to ensure our products continue to meet our customers need.

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 reduced to 75% as we underwent a full product review process from 2023 into 2024. Some of the product changes introduced, such as aligning the claiming benefit year to deliver on our consumer duty to provide clear and easy to use products, has led to an artificial inflation of claims, which impacted short results but is expected to stabilise over the time as the portfolio adjusts. We continue to track claim loss ratios as a key indicator for our underwriting performance which will be closely monitored throughout 2025.

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.

Our year end position of 37% was within target, and within our operational expenses were one-off costs relating to project works to further develop our product offering but also improve our existing knowledge of our IT infrastructure to develop ways in which we can transform the business to be cost effective. A key priority throughout the whole business is to reduce our operational expense ratio through digital transformation, operational efficiency, process improvement and scaling up the business through a growth strategy.

A.3 Investment Performance

We remain focused on our strategy to invest for the medium to long term whilst realising a steady stream of investment income. Our investment portfolio, made up of collective funds and property, ended the year at £68,954,123 (2023: £63,970,151), coupled with cash equivalents and short term deposits of £11,117,485 (2023: £12,225,522). This significantly contributes to our sustained strong capital position. Dividend income received of £2,014,229 (2023: £1,932,956) was 4% higher than prior year. The investment property, The Waterfront, generated £686,588 (2023: £524,372) of rental income.

The property listed on our Solvency UK 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 9 January 2025. 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 lower risk investments such as cash and fixed income assets.

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

	2024	2023
	£000's	£000's
Investment Income - Net of fees	2,677	2,470
Interest Payable	-	-
Realised gain/(loss) on investments	1,303	2,128
Revaluation of investment property	(290)	(617)
Unrealised gain/(loss) on investments	2,004	513
Charitable donations and other charges	(972)	(1,583)
Net investment return	4,722	2,911

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

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 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 Company operates a flat rate of remuneration for all non-executive Board members with no variable element. 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.

Periodically, external consultancy is sought to benchmark pay for both executive and non-executive directors, as well as all job roles within the company. A benchmarking activity is currently ongoing and the aim of this is to ensure remuneration structures are sufficient to attract the right caliber of individual for key roles.

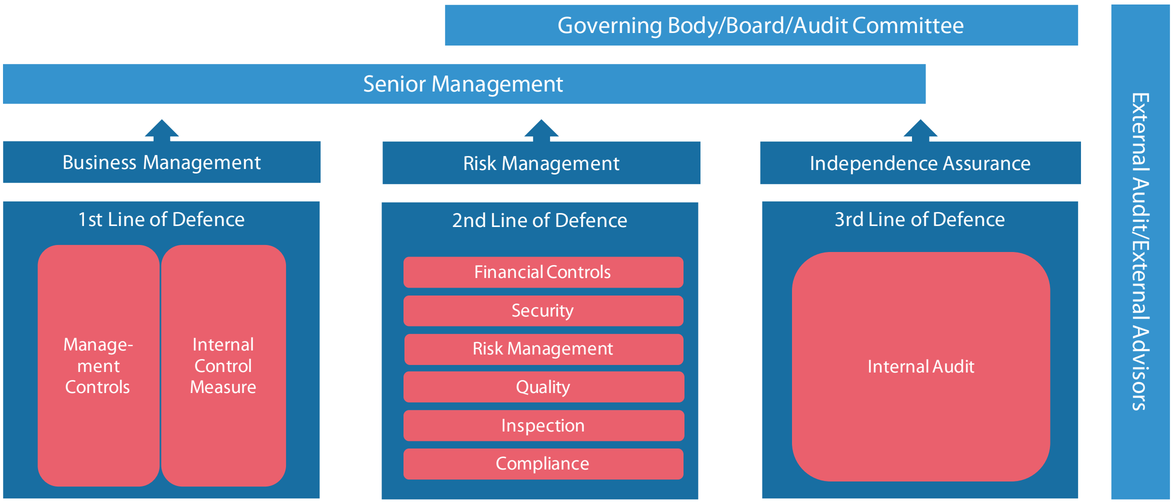
B.2 Fit and proper requirements

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 to the ORSA process 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 2024 ORSA will be reviewed and approved by the Board prior to 31 July 2025.

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 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 UK 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

Where applicable, the following checks 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 UK capital requirements** – under Solvency UK 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 2024 these assets are held at fair value of £62.7m (2023: £57.5m). 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 UK, our investments are stressed on interest rate risk, equity risk, currency risk and concentration risk. The capital requirement relating to market risk equates to £24.6m (2023: £25m) and the Board are of the opinion we hold sufficient capital reserves to cover this risk charge as demonstrated by our Solvency UK coverage ratio.

The Board recognises the significant influence of the valuation of the Company’s investment portfolio on the SCR coverage levels, currently at 294% (2023: 286%). 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 £62.7m, 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. 52% of the portfolio's companies are rated ESG leaders, with ratings of AA to AAA. ESG leaders are defined by MSCI as "a company leading its industry in management the most significant ESG risks and opportunities". With active engagement from the asset managers, rather than an exclusion mandate, the focus is on evaluating and monitoring effective risk management of climate change. The Directors were pleased these funds produced above average ratings as a result.

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 acknowledges climate change to be a risk in regard to our investment portfolio, however these risks are actively managed through the engagement of professional fund managers who integrate ESG considerations into their investment strategies.

The Group continues to monitor climate change developments to ensure understanding of the impacts are appropriately reflected in our strategic plans and ORSA, if considered as a material risk.

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 £560k (2023: £645k).

The Board adopts a low risk appetite by holding an amount of readily available funds through our cash balances.

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 UK balance sheet, total deposits and cash equivalents of £10.4m (2023: £10.2m) 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 A and B and are consistent with the Solvency UK 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 UK balance sheet totalling £1.1m (2023: £1.5m), and in meeting policyholder claims, represented on the year-end group statement of financial position by the provision for outstanding claims totalling £0.7m (2023: £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 £21.6k 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 that is deemed an evolutionary process involving continuous learning and development of 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 was to ensure our disaster recovery and business continuity plans were reviewed and updated. The updated plan will be tested through 2025 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 are working towards gaining the Cyber Essential Plus accreditation.

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 staff development programmes and succession planning. Core processes are documented across areas, so other staff members can perform the processes if necessary.

D. VALUATION FOR SOLVENCY UK PURPOSES

Solvency UK 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 UK.

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 UK Own Funds.

	2024			2023		
	£	£	£	£	£	£
UK Statutory Retained Earnings			**79,915,514**			**76,618,935**
Property, for own use valuation change	288,744			167,203		
Transfer to property investment	6,223,949			6,513,664		
Participations	318,376			928,976		
Transfer out of cash and cash equivalents	(22,520)			(17,329)		
Change in valuation basis of other assets	(7,554,925)			(7,896,512)		
Change in assets		(746,376)			(303,998)	
Removal to technical provisions	1,093,413			1,077,212		
Best estimate liabilities	(883,883)			(896,864)		
Risk margin	(134,863)			(132,048)		
Change in valuation basis of other liabilities	(21,598)			(149,469)		
Deferred tax liabilites	-			-		
Change in liabilities		53,069			(101,169)	
Net change			(693,306)			(405,167)
Solvency II Own Funds			**79,222,208**			**76,213,768**

The full Solvency UK balance sheet is presented in the template IR.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 UK 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 UK 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 UK 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 UK and UK GAAP statutory account reported balances:

	2024 Solvency II £	2024 Statutory £
Property, plant & equipment held for own use	1,026,051	737,307
Holdings in related undertakings, including participations	328,576	10,200
Property investment	6,223,949	-
Equities - unlisted	2,519	2,519
Collective fund investments	62,730,154	62,730,154
Deposits other than cash equivalents	-	-
Insurance and intermediaries receivables	559,592	559,592
Receivables (not insurance)	28,143	7,278,143
Cash and cash equivalents	10,353,027	10,375,547
Any other assets, not elsewhere shown	259,523	564,448
Total assets	**81,511,535**	**82,257,910**

D.2 Technical provisions

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

	2024 Solvency II £	2024 Statutory Account £
Best Estimate	883,883	-
Risk margin	134,863	-
Statutory provisions	-	1,093,413
Total technical provision	**1,018,746**	**1,093,413**

The liabilities valued in the technical provisions are those associated with existing contracts as at 31 December 2024. Under Solvency UK, 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 UK 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 2024. 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 UK technical provisions the key differences relate to:

- Replacement of unearned premium reserve with best estimate of future premium income;
- Solvency UK 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 UK 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 UK 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 UK and UK GAAP statutory account reported balances:

	2024	2024
	Solvency II	Statutory Account
	£	£
Contingent liabilities	21,598	-
Provisions other than technical provisions	110,010	110,010
Deferred tax liabilities	156,715	156,715
Insurance & intermediaries payables	31,241	31,241
Payables (trade, not insurance)	100,953	100,953
Any other liabilities, not elsewhere shown	850,065	850,065
Total other liabilities	**1,270,581**	**1,248,983**

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 UK)

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 UK balance sheet forms the reconciliation reserve:

	2024 £	2023 £
Excess of assets over liabilities	79,222,208	76,213,768
Other basic own fund items	-	-
Reconciliation reserve	79,222,208	76,213,768

Under Solvency UK, 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 UK 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 2024, 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 2024	79,222,208	79,915,514	IR.23.01
Minimum Capital Requirement	6,729,350	-	IR.23.01
Solvency Capital Requirement	26,917,400	-	IR.23.01/IR.25.04
SCR coverage ratio	294%	-	IR.23.01

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

Overall MCR calculation	2024 £	2023 £	Appendix Reference
Linear MCR	558,592	509,967	IR.28.01
SCR	26,917,400	26,689,536	IR.28.01
MCR cap	12,112,830	12,010,291	IR.28.01
MCR floor	6,729,350	6,672,384	IR.28.01
Combined MCR	6,729,350	6,672,384	IR.28.01
Absolute floor of the MCR	2,400,000	2,358,882	IR.28.01
Minimum Capital Requirement	**6,729,350**	**6,672,384**	

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

	31-Dec-24	31-Dec-23
Risk Component	Capital Requirements	Capital Requirements
Basic Operational Risk Charge	329,433	299,512
Interest Rate Risk	191,589	57,498
Equity Risk	17,130,456	18,031,789
Property Risk	1,357,920	1,437,264
Spread Risk	1,123,201	843,360
Currency Risk	4,799,323	4,649,800
Concentration Risk	311	979
Market Risk	24,602,801	25,020,689
Counterparty Risk	3,249,009	1,450,297
Health Underwriting Risk	3,016,100	3,074,826
Overall Diversification	(4,279,942)	(3,155,789)
Solvency Capital Requirement	**26,917,400**	**26,689,536**

Risk Sensitivity and Solvency UK impact

We are strongly capitalised with a Solvency UK capital surplus of £52.3m (2023: £49.5m) representing a solvency cover ratio of 294% (2023: 286%).

	2024	2023
Own Funds	79,222,208	76,213,768
Solvency Capital Requirement (SCR)	26,917,400	26,689,536
Solvency II Capital Surplus	52,304,808	49,524,232
Solvency Capital Ratio	294%	286%

The SCR of £26.9m would change by an amount equal or opposite to 15% or less following a:

- 20% rise or fall in equities (surplus would increase by £9m/decrease by £9m respectively), or
- 100% rise in the volume of insurance underwritten (surplus would reduce by less than £760k)

The equity risk component of our Solvency Capital Requirement is £17.1m (2023: £18m). In performing sensitivity analysis, a 20% fall in the equity market would result in a £9m deficit and equivalent reduction on reserves, our Solvency UK coverage ratio would increase to 307% whereas a 20% increase in the equity market would decrease our Solvency UK coverage ratio to 284%.

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

2024

(Monetary amounts in GBP thousands)

General information

Entity name	Sovereign Health Care
Entity identification code and type of code	LEI/213800PGKJQYRABOJQ62
Type of undertaking	Non-life undertakings
Country of incorporation	GB
Language of reporting	en
Reporting reference date	31 December 2024
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

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IR.02.01.02 - Balance sheet

IR.05.02.01 - Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

IR.17.01.02 - Non-Life Technical Provisions

IR.19.01.21 - Non-Life insurance claims

IR.23.01.01 - Own Funds

IR.25.04.21 - Solvency Capital Requirement

IR.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

IR.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	1,026
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	69,285
R0080	*Property (other than for own use)*	6,224
R0090	*Holdings in related undertakings, including participations*	329
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*	62,730
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	0
R0280	*Non-life and health similar to non-life*	0
R0315	*Life and health similar to life, excluding index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	560
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	28
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	10,353
R0420	Any other assets, not elsewhere shown	260
R0500	**Total assets**	81,512

		Solvency II value
	Liabilities	C0010
R0505	Technical provisions - total	1,019
R0510	*Technical provisions - non-life*	1,019
R0515	*Technical provisions - life*	0
R0542	Best estimate - total	884
R0544	*Best estimate - non-life*	884
R0546	*Best estimate - life*	
R0552	Risk margin - total	135
R0554	*Risk margin - non-life*	135
R0556	*Risk margin - life*	
R0565	Transitional (TMTP) - life	
R0740	Contingent liabilities	22
R0750	Provisions other than technical provisions	110
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	157
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	31
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	101
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in Basin own*	
R0870	*Subordinated liabilities in Basin own*	0
R0880	Any other liabilities, not elsewhere shown	850
R0900	**Total liabilities**	2,289
R1000	**Excess of assets over liabilities**	79,222

IR.05.02.01

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	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	11,001						11,001
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share							0
R0200	Net	11,001						11,001
	Premiums earned							
R0210	Gross - Direct Business	10,981						10,981
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share							0
R0300	Net	10,981						10,981
	Claims incurred							
R0310	Gross - Direct Business	8,477						8,477
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share							0
R0400	Net	8,477						8,477
R0550	**Net expenses incurred**	4,112						4,112

IR.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
	Best estimate																	
	Premium provisions																	
R0060	Gross	135																135
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**	135																135
	Claims provisions																	
R0160	Gross	749																749
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**	749																749
R0260	**Total best estimate - gross**	884																884
R0270	**Total best estimate - net**	884																884
R0280	**Risk margin**	135																135
R0320	**Technical provisions - total**	1,019																1,019
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**	1,019																1,019

IR.19.01.21

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 0	1	2	3	4	5	6	7	8	9	10 & +	**In Current year**	**Sum of years (cumulative)**
R0100	Prior											0	0	0
R0160	-9	6,507	585	0	0	0	0	0	0	0	0		0	7,092
R0170	-8	6,535	704	0	0	0	0	0	0	0			0	7,240
R0180	-7	6,520	625	0	0	0	0	0	0				0	7,145
R0190	-6	6,627	641	0	0	0	0	0					0	7,268
R0200	-5	7,011	652	0	0	0	0						0	7,663
R0210	-4	4,862	508	0	0	0							0	5,371
R0220	-3	6,197	624	0	0								0	6,821
R0230	-2	6,231	662	0									0	6,893
R0240	-1	7,082	695										695	7,778
R0250	0	7,534											7,534	7,534
R0260												**Total**	8,229	70,804

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	**Year end (discounted data)**
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

IR.19.01.21.22
Gross premium

		C0570	C0580
		Gross earned premium at reporting reference date	**Estimate of future gross earned premium**
R0160	N-9	10,475	0
R0170	N-8	10,605	0
R0180	N-7	10,764	0
R0190	N-6	10,978	0
R0200	N-5	10,911	0
R0210	N-4	10,677	0
R0220	N-3	10,210	0
R0230	N-2	9,983	0
R0240	N-1	9,984	0
R0250	N	10,981	0

IR.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	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	79,222	79,222			
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				
R0290	**Total basic own funds after deductions**	79,222	79,222	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	79,222	79,222	0	0	0
R0510	Total available own funds to meet the MCR	79,222	79,222	0	0	
R0540	Total eligible own funds to meet the SCR	79,222	79,222	0	0	0
R0550	Total eligible own funds to meet the MCR	79,222	79,222	0	0	
R0580	**SCR**	26,917				
R0600	**MCR**	6,729				
R0620	**Ratio of Eligible own funds to SCR**	294.32%				
R0640	**Ratio of Eligible own funds to MCR**	1177.26%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	79,222
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0725	Deductions for participations in financial and credit institutions	
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**	79,222

IR.25.04.21

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

		C0010
	Market risk	
R0070	Interest rate risk	1,364
R0080	Equity risk	18,365
R0090	Property risk	1,813
R0100	Spread risk	1,512
R0110	Concentration risk	88
R0120	Currency risk	8,360
R0125	Other market risk	
R0130	Diversification within market risk	-6,899
R0140	**Total Market risk**	24,603
	Counterparty default risk	
R0150	Type 1 exposures	3,175
R0160	Type 2 exposures	98
R0165	Other counterparty risk	
R0170	Diversification within counterparty default risk	-24
R0180	**Total Counterparty default risk**	3,249
	Life underwriting risk	
R0190	Mortality risk	
R0200	Longevity risk	
R0210	Disability-Morbidity risk	
R0220	Life-expense risk	
R0230	Revision risk	
R0240	Lapse risk	
R0250	Life catastrophe risk	
R0255	Other life underwriting risk	
R0260	Diversification within life underwriting risk	
R0270	**Total Life underwriting risk**	0
	Health underwriting risk	
R0280	Health SLT risk	0
R0290	Health non SLT risk	1,715
R0300	Health catastrophe risk	2,089
R0305	Other health underwriting risk	
R0310	Diversification within health underwriting risk	-788
R0320	**Total Health underwriting risk**	3,016
	Non-life underwriting risk	
R0330	Non-life premium and reserve risk (ex catastrophe risk)	
R0340	Non-life catastrophe risk	
R0350	Lapse risk	
R0355	Other non-life underwriting risk	
R0360	Diversification within non-life underwriting risk	
R0370	**Non-life underwriting risk**	0
R0400	**Intangible asset risk**	
	Operational and other risks	
R0422	Operational risk	329
R0424	Other risks	
R0430	**Total Operational and other risks**	329
R0432	**Total before all diversification**	38,908
R0434	Total before diversification between risk modules	31,197
R0436	Diversification between risk modules	-4,280
R0438	**Total after diversification**	26,917
R0440	Loss absorbing capacity of technical provisions	
R0450	Loss absorbing capacity of deferred tax	
R0455	Other adjustments	
R0460	**Solvency capital requirement including undisclosed capital add-on**	26,917
R0472	Disclosed capital add-on - excluding residual model limitation	
R0474	Disclosed capital add-on - residual model limitation	
R0480	**Solvency capital requirement including capital add-on**	26,917
R0490	Biting interest rate scenario	
R0495	Biting life lapse scenario	

IR.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	559

		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	884	11,001
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	559
R0310	SCR	26,917
R0320	MCR cap	12,113
R0330	MCR floor	6,729
R0340	Combined MCR	6,729
R0350	Absolute floor of the MCR	2,400
R0400	**Minimum Capital Requirement**	6,729