CONVEX INSURANCE UK LIMITED

Solvency and Financial Condition Report 2020

Contents

Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations. We are satisfied that:

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

Signed on behalf of the Board of Directors on 8 April 2021 by:

Matthew Wilson
Director

Executive summary

The purpose of the Solvency and Financial Condition Report ("SFCR") is to provide stakeholders with additional information over and above that contained in the annual financial statements. This SFCR is prepared in accordance with the requirements of the Solvency II Directive (as implemented in the UK in the Prudential Regulation Authority ("PRA") Rulebook for Solvency II Firms) and the Solvency II regulations. The annual financial statements of Convex Insurance UK Limited ("CIL") are available from Companies House. The SFCR contains qualitative and quantitative information on CIL's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management together with standardised Quantitative Reporting Templates ("QRTs") for 2020.

On 17 October 2018 the PRA published PS25/18 Solvency II: External audit of the public disclosure requirement. This Policy Statement confirms the removal of the audit requirement in respect of the public Solvency II reporting of smaller insurers. Given that CIL has only recently established its operations, CIL meets the requirements for the removal of audit requirements, and so has taken the opportunity not to audit the report this year. The report fully meets all of the requirements for the SFCR as set out in the Solvency II rules and follows the prescribed structure as set out in Annex XX of Delegated Regulation EU 2015/35.

The Quantitative Reporting Templates (QRT) in this report are presented in US dollars rounded to the nearest thousand. Rounding differences of +/- one unit can occur. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Business and performance

CIL's focus in 2020 was to grow the business, having spent 2019 defining and implementing the processes required to allow it to begin underwriting business. As a result, gross premiums written in 2020 increased significantly to $831.6 million (2019 gross premiums written: $93 million). A prudent approach to risk retention resulted in significant use of reinsurance protection which in turn resulted in a significant level of ceded premiums written.

The ramp up of operations continuing into 2020, from a standing start to a fully-operational insurer/reinsurer, also meant that expenses incurred were significant as a proportion of the premium base, which further reduced the level of net income. As a result, the Company made a net loss of $49.9 million in the year (2019: net loss $7.9 million).

Future Outlook

Continued growth

CIL views pricing in the insurance industry to be cyclical. Over the past decade there has been a significant decrease in pricing in both the insurance and reinsurance market, which CIL believes is attributable primarily to the emergence of alternative sources of capital, less disciplined underwriting from incumbent providers, intermediary consolidation, and an expansion of delegated authorities.

However, the rate of decline slowed during 2017 and 2018, with many markets turning in 2019 so that 2020 saw rate increases for many classes of business. With markets continuing to harden, CIL's proposition will continue to be underpinned by a disciplined underwriting approach with a focus on profitability over volume. In addition, as CIL moves out of the start-up phase of its development, the cost advantage enabled by the efficient operating model will further enhance CIL's competitive position.

CIL believes that the specialty insurance and reinsurance markets offer greater scope for premium growth and profitable underwriting due to on-going dislocation in the market, increasing client demand for underwriting solutions for complex risks and the continued emergence of higher-complexity risk types.

Within these specialty insurance and reinsurance markets, CIL will focus on the most complex end of the risk spectrum, supported by the Group's differentiated operating model and underwriting experience and capabilities. One of the key elements of differentiation within the operating model is CIL's use of outsourcing within Finance, HR, Underwriting Operations and Technology to supplement in-house capabilities. In this, one of our key partners, WNS, will continue to provide a breadth and depth of expertise to CIL across a variety of areas.

CIL writes some business via delegated authority arrangements. However, the majority of its business is written by CIL itself, with a differentiated proposition including the following:

- a focus on large commercial clients and complex risk types;
- appropriate specialist underwriting capabilities and experience of writing consistently profitable business in CIL's target classes of business;
- the ability to provide insurance and/or reinsurance capacity for relatively large risks, with access to additional third-party capacity as appropriate;
- a high-touch client service model supported by a wider operating model tailored to the type of business targeted by CIL; and
- modern supporting technology specifically designed to support the business targeted by CIL, with no outdated legacy systems to be maintained.

In order to guide management in implementing this proposition, as part of its business planning approach, CIL has again constructed a business plan which considers different potential market-level scenarios for the short and long-tailed insurance markets, and how CIL would respond in each scenario.

Brexit

Following the United Kingdom's decision to leave the European Union ("EU") ("Brexit"), negotiations are still on-going to determine elements of the future relationship between the United Kingdom and the European Union. As a result, there remains continued uncertainty ahead for the market.

EU membership and access to the single market in 2020 has enabled CIL's underwriters to underwrite insurance business in all of the other 27 member states on a freedom of services basis. From the start of 2021, these passporting rights are no longer available to CIL, and as a result, alternative provisions were put in place to allow CIL to write business through a fronting arrangement from 1 January 2021. In parallel, CIL are working to finalise a solution which will allow business to be written in the EEA.

COVID-19

Although the insurance implications of COVID-19 on CIL have thus far been limited, the Risk Management function closely monitored and assessed the implications throughout 2020, ensuring that the business was suitably prepared for any developments. Both financial markets and the economy in wider terms were severely impacted by COVID-19, however the financial impact to CIL was minimised due to the investment portfolio remaining conservative and therefore protecting the business against severe market shocks. Operationally, CIL was well-equipped to cope with remote working thanks to its agile and modern technology, making the volatile nature of multiple lockdowns less disruptive. This enabled CIL to continue writing business throughout the year with minimal disruption, leading to praise from both brokers and insurers within the industry. Both the Human Resources ("HR") and Marketing teams provided various networks and initiatives to ensure that CIL employees were supported, with employee well-being always being a priority for senior management.

Despite the effect of COVID-19 being minimal to Convex thus far, the Risk Management Function will continue to closely monitor developments. The CRO is a member of the Coronavirus planning working group, which meets on a weekly basis to discuss a wide range of matters impacted by COVID-19 such as CIL's operations, employees' well-being or impact on outsource partners. Risk Management will continue working with the Business to identify proactively any implication to Convex.

System of Governance and Risk

CIL's Board is responsible for promoting the long-term success of CIL and for setting strategy. It does so with a determination to protect the interests of policyholders, customers, shareholders and other stakeholders. The Board ensures that there is a strong system of governance, that risk management and financial controls are robust and that the key functions are adequately resourced and empowered to advise management and the Board.

Overall organisational risks

The Risk Management function oversees the management of all organisational risks and continues to enhance the mechanisms used to identify, quantify and manage accumulated exposures within the limits of CIL's risk appetite. The steering of the overall risk strategy is directed by the Board of Directors.

General insurance risk

General insurance risk arises from:

- fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- unexpected claims arising from a single source;
- inadequate claims reserves; and
- inadequate reinsurance protection.

The adequacy of CIL's general insurance reserves is reviewed by the Group Reserving Committee and approved by the CIL Board of Directors.

Financial risk

Financial risk arises through CIL's holdings in financial assets, financial liabilities, insurance/reinsurance assets and policyholder/cedant liabilities. The key financial risk is that the net asset value of CIL reduces as a result of movements in financial markets and / or credit defaults, affecting the company's solvency and liquidity position.

The most important drivers of financial risk are: interest rate risk; currency risk; credit risk; and inflation risk. Liquidity risk is also an important risk driver. A financial market risk framework is in place to enable CIL to manage market risk via a set of stress tests, calibrated at a 1-in-200 one-year event, and subject to an overall market risk limit.

Interest rate risk

Interest rate risk arises from changes to the market value of the investment portfolio, which primarily consists of debt securities, money market funds and cash deposits, and to the market value of its insurance liabilities due to interest rate movements.

CIL monitors interest rate risk by calculating the difference between the interest rate sensitivity of assets and liabilities, using measures such as duration. These indicators measure the sensitivity of assets and liabilities to changes in current interest rates. The current net interest rate sensitivity is not significant and is well within limits.

Currency risk

The Company is exposed to currency risk in respect of policyholder/cedant liabilities which are denominated in currencies other than US Dollars. CIL seeks to mitigate currency risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where CIL is exposed to credit risk are:

- exposure to investments in debt securities, money market funds and cash deposits;
- insurance exposures arising from the political and credit risk line of business;
- reinsurers' share of insurance/reinsurance claim reserve liabilities;
- claim recovery amounts due from reinsurers in respect of claims already paid;
- premium amounts due from insurance/reinsurance policyholders/cedants; and
- premium amounts due from insurance/reinsurance intermediaries.

CIL has in place concentration limits and monitors its exposure to a single counterparty, or groups of related counterparties and industry segments.

Liquidity risk

Liquidity risk is defined as the risk that CIL is unable to settle its financial obligations when they fall due. Liquidity risk is inherent to the business model of insurance companies given the delay between receiving an asset in the form of premium income and when liabilities fall due. A liquidity risk framework is in place to enable the firm to manage its liquidity position under normal and stressed conditions.

Valuation for solvency

Assets and liabilities have been valued for solvency purposes in accordance with the Solvency II Directive (as implemented in the UK in the PRA Rulebook for Solvency II Firms) and the Solvency II Regulations. Table 1 shows the differences between CIL's shareholders' equity (as presented in the financial statements prepared under UK generally accepted accounting principles ("GAAP")) and the Solvency II excess of assets over liabilities ("EAL"), as presented in the Solvency II balance sheet shown in Appendix B of this report.

Table 1 – Shareholders' Equity

	2020 $000s	2019 $000s
Shareholders' equity as shown in the financial statements	890,913	303,873
Solvency II valuation adjustments to assets (Note i)	(886,490)	(192,580)
Solvency II valuation adjustments to technical provisions (Note ii)	447,832	90,173
Solvency II valuation adjustments to other liabilities (Note iii)	416,668	70,070
Solvency II EAL	**868,923**	**271,536**

The differences between shareholders' equity and Solvency II EAL are due to valuation adjustments as explained below:

i. Valuation of assets under Solvency II
Valuation adjustments to assets relate primarily to adjustments to remove deferred acquisition costs and insurance and reinsurance receivables not yet due, as these are taken into account in the valuation of technical provisions under Solvency II. No adjustments have been made to the valuation of investments for the purposes of Solvency II as they are already valued on a market consistent basis under UK GAAP.

ii. Valuation of technical provisions under Solvency II
Adjustments have been made to statutory technical provisions and reinsurance recoverables (consistent with the adjustments to valuation of assets) to reflect Solvency II valuation requirements. Solvency II requires the technical provisions ("claims provisions" plus "premium provisions") to be a best estimate of the current liabilities relating to insurance contracts, plus a risk margin. The best estimate liabilities are calculated as the discounted best estimate of all future cash flows relating to claim events prior to the valuation date, as well as the discounted best estimate of all future cash flows relating to future exposure arising from policies that the insurer is obligated to at the valuation date.

iii. Valuation of other liabilities
Valuation adjustments to other liabilities relate primarily to adjustments to remove deferred acquisition costs payable in the financial statements (relating to reinsurance ceded) and insurance and reinsurance payables not yet due, as these are taken into account in the valuation of reinsurance recoverables under Solvency II. CIL has no material contingent liabilities that require recognition as liabilities in the Solvency II balance sheet.

Further details of CIL's valuation of assets and liabilities for solvency purposes are included in Section D of this report.

Capital management summary

CIL's solvency position under Solvency II is determined by comparing eligible Own Funds with the Solvency II Solvency Capital Requirement ("SCR"). CIL is required to meet the SCR at all times and is required to rectify any breach within six months (though this period can be extended by a further three months). A breach of the lower Minimum Capital Requirement ("MCR") is required to be rectified within three months. As at 31 December 2020, the Own Funds of CIL were $869m (2019: $272m) compared to a standard formula SCR of $428m (2019: $51m), representing an SCR coverage ratio of 203% (2019: 534%). CIL's MCR was $107m (2019: $13m).

CIL's Eligible Own Funds are set out in Table 2 below.

Table 2 – Solvency Position

	2020 $000s	2019 $000s
Solvency II EAL	868,923	271,536
Foreseeable dividends	–	–
Restrictions on eligibility	–	–
Eligible own funds (all Tier 1)	868,923	270,197
Minimum capital requirement	107,061	12,721
Solvency capital requirement	428,245	50,884
Solvency capital requirement (SCR) ratio (%)	**203%**	**534%**

There are limited restrictions on the availability or transferability of CIL's Own Funds, with a small volume of assets held in trust funds for US NAIC surplus lines. The majority of CIL's Own Funds is in the form of unrestricted Tier 1 items (i.e. ordinary share capital, related share premium and reconciliation reserve), and is therefore eligible to cover both the SCR and MCR. CIL has not requested and therefore does not have in place approvals to use the matching adjustment, volatility adjustment, transitional interest rate term structure or the transitional deduction on technical provisions and therefore no adjustments have been made relating to these transitional measures.

The appropriateness of the Solvency II Standard Formula has been assessed with respect to the risk profile of CIL. Overall, the qualitative and quantitative assessments of the appropriateness of the assumptions underlying the Standard Formula have concluded that it is 'not inappropriate' as a measure to calculate the capital requirements for CIL. The Standard Formula captures key features of CIL's risk profile and there are no material omissions in the Standard Formula of specifics risks considered which could result in a material understatement of the SCR. As an approximate guide the assessment considers an understatement of the SCR of at least 10% as material.

Decisions on optimal capital levels are an integral part of CIL's business planning and forward-looking assessment of risk processes which cover a three-year time horizon. CIL manages its Own Funds in such a way that it will ensure it holds sufficient capital to meet its regulatory and business requirements.

There were no material changes to CIL's capital management approach during the reporting period and there were no instances of non-compliance with the SCR or MCR. Further details of CIL's capital management approach are included in Section E of this report.

A. Business and performance

A.1. Business

Convex Insurance UK Limited ("CIL") is a privately-owned company incorporated in England.

The registered office of CIL is 52 Lime Street, London, EC3M 7AF.

CIL is supervised by both the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). Their respective contact details are set out below:

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH

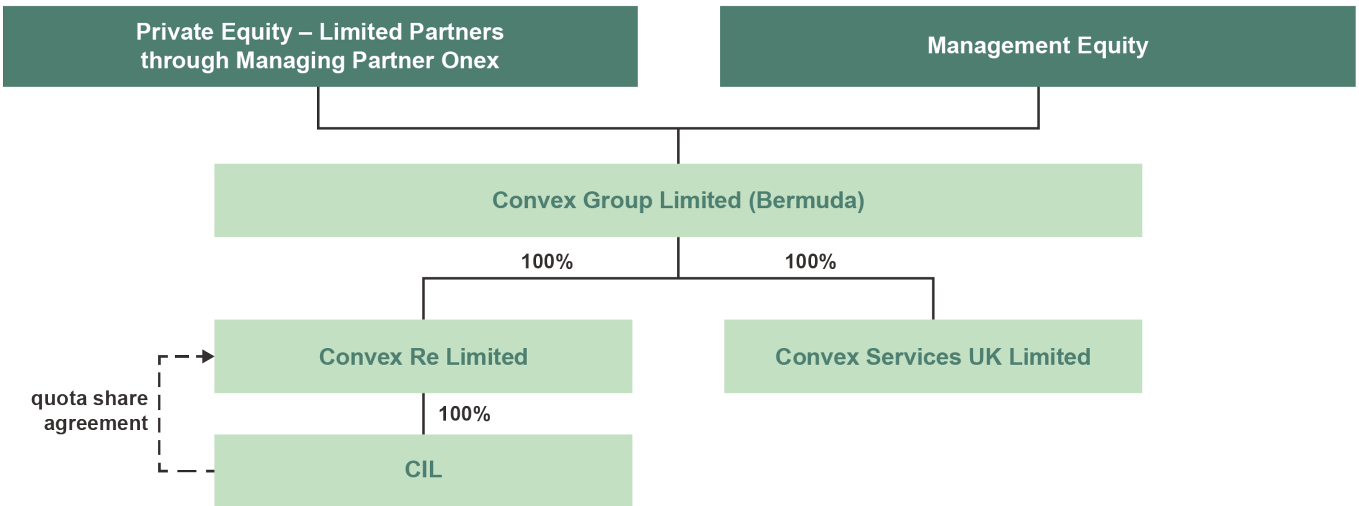
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

The external auditor of CIL is PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Details of CIL's position within the legal structure of the Group and related undertakings are set out in the diagram below.

Diagram 1 – CIL position within abbreviated Group Structure



Convex Group

Convex Group is a property and casualty ("P&C") insurance and reinsurance carrier focused on large commercial clients with complex insurance requirements

The Group has a streamlined organisational structure comprising of:

- **Convex Group Limited:** Holding company in Bermuda
- **Convex Re Limited:** Bermuda operating company, which seeks to be the best-in-class specialty P&C reinsurer focusing on complex risks
- **Convex Insurance UK Limited:** UK operating company, closely aligned with the Bermuda operating company
- **Convex UK Services Limited:** a services company, which is the main employing and contracting entity in the UK for efficiency and operational purposes

A.2. Underwriting performance

A.2.1. Measurement of underwriting performance

CIL uses underwriting result to measure its underwriting performance. Underwriting result is a non-GAAP financial performance measure, calculated on a UK GAAP basis. It excludes certain items to enhance comparability and understanding of underwriting performance by highlighting net underwriting income attributable to on-going underwriting operations. Examples of items excluded from underwriting result are investment return and expenses not directly attributable to underwriting.

At time of writing, CIL believes its net underwriting exposure to COVID-19 is minimal relative to normal exposures.

A.2.2. Underwriting profit

Table A.1 below presents the underwriting loss for CIL for the period ended 31 December 2020 and 2019, as well as the reconciliation of underwriting loss to profit before tax. Profit before tax is as shown in CIL's financial statements.

Table A.1 – Underwriting Performance

	2020 $000s	2019 $000s
Gross premiums written	831,649	93,080
Premiums ceded to reinsurers	(562,413)	(81,457)
Premiums written net of reinsurance	269,236	11,623
Net change in provision for unearned premium reinsurance	(132,779)	(8,560)
Net premiums earned	136,457	3,063
Net investment income	14,103	3,999
Total Revenues	150,560	7,062
Claims paid net of recoveries from reinsurers	(15,603)	(57)
Change in insurance liabilities, net of reinsurance	(98,289)	(2,503)
Fee and commission expense, net of reinsurance	(12,467)	(407)
Other expenses, net of reinsurance	(74,443)	(13,659)
Loss for the period before tax	(50,242)	(9,564)
Less: Net investment income	(14,103)	(3,999)
Add back: Indirect Expenses	79,041	13,553
Underwriting profit/(loss) for the period	**14,696**	**(10)**

As in 2019, Convex's prudent Group approach to risk retention in the early stages of operation resulted in a high level of ceded reinsurance spend in 2020, which served to reduce net written, and hence net earned, premium.

In addition, the ramp up of operations during the year led to a high level of expenses in relation to premium recorded on a GAAP basis, and so as a result, CIL's financial statements recorded a pre-tax loss of $50.2m. However, the underwriting result, which excludes investment income and expenses not directly attributable to policies, was a profit of $14.7m.

Table A.2 – Underwriting Performance – Analysis by Geographic Area

31 December 2020	United Kingdom	United States of America	Bermuda	France	Russia	Japan	Other	Total $000s
Gross Premiums Written	336,349	271,149	39,582	10,109	9,388	9,315	155,757	831,649
Reinsurers' Share	233,512	179,003	27,021	6,957	6,544	5,905	103,471	562,413
Net Premiums Written	102,837	92,146	12,561	3,152	2,844	3,410	52,286	269,236
Gross Premiums Earned	174,071	172,756	22,727	2,157	9,716	5,922	96,854	484,203
Reinsurers' Share	123,681	127,291	15,872	1,441	7,288	3,854	68,320	347,746
Net Premiums Earned	50,390	45,465	6,856	717	2,428	2,068	28,534	136,457
Gross Claims Incurred	121,113	113,151	8,336	902	5,646	6,035	58,916	314,098
Reinsurers' Share	81,861	67,939	4,910	553	4,012	3,562	38,423	201,260
Net Claims Incurred	39,251	45,211	3,426	349	1,634	2,474	20,493	112,838
Expenses Incurred	33,456	36,030	4,125	507	2,058	1,588	16,553	94,317
Technical Result	(22,317)	(35,777)	(696)	(139)	(1,264)	(1,994)	(8,512)	(70,699)

31 December 2019	United Kingdom	United States of America	Bermuda	France	Russia	Japan	Other	Total $000s
Gross Premiums Written	42,949	17,231	1,586	178	4,912	877	25,346	93,080
Reinsurers' Share	30,888	18,432	833	346	2,871	602	27,484	81,457
Net Premiums Written	12,061	(1,201)	753	(169)	2,041	275	(2,138)	11,622
Gross Premiums Earned	3,764	6,396	303	45	38	153	2,598	13,297
Reinsurers' Share	1,673	4,109	80	16	15	79	4,261	10,234
Net Premiums Earned	2,091	2,287	224	29	22	73	(1,664)	3,063
Gross Claims Incurred	3,064	1,440	139	23	29	70	1,438	6,203
Reinsurers' Share	764	206	29	7	6	16	2,655	3,684
Net Claims Incurred	2,301	1,234	111	15	23	54	(1,218)	2,519
Expenses Incurred	4,738	5,527	510	67	54	169	3,209	14,273
Technical Result	(4,948)	(4,473)	(396)	(53)	(54)	(149)	(3,655)	(13,729)

convex

A.2.3. Quantitative Reporting Templates S.05.01

Quantification of premiums, claims and expenses, analysed by Solvency II lines of business, is provided in QRT S.05.01, (see Appendix B). This QRT has been prepared in accordance with the definitions and formats prescribed under Solvency II. It includes the items (except net investment income) excluded from underwriting result in the reconciliation presented in Section A.2.2, which are described in Section A.4.

A summary of the information provided in the premium, claims and expenses QRT S.05.01, analysed by Solvency II lines of business, is provided in Table A.3 below, set out separately for the 2019 and 2020 financial years.

Table A.3 – Summary of QRT S.05.01

	Direct and Proportional Reinsurance								Non Proportional Reinsurance				
Financial Year 2020	Motor vehicle liability insurance	Marine, Aviation and Transport	Fire and property Damage	General Liability	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	Total $000s	Marine, Aviation and Transport Aviation	Property	Casualty	Total $000s	Total $000s
Gross premiums written	2,043	293,275	205,298	116,645	3,306	4,361	26,189	651,117	16,905	141,785	21,842	180,532	**831,649**
Net premiums earned	374	51,315	20,187	15,938	(65)	394	963	89,106	5,525	35,622	6,204	47,351	**136,457**
Gross claims incurred	521	114,381	51,534	45,316	84	1,180	3,791	216,807	6,634	78,628	12,029	97,291	**314,098**
Net claims incurred	235	36,940	18,792	13,752	37	529	871	71,156	2,773	33,948	4,961	41,682	**112,838**
Direct expenses incurred	92	1,819	4,944	1,629	29	324	(126)	8,711	(12)	5,987	317	6,292	**15,003**

	Direct and Proportional Reinsurance								Non Proportional Reinsurance				
Financial Year 2019	Motor vehicle liability insurance	Marine, Aviation and Transport	Fire and property Damage	General Liability	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	Total $000s	Marine, Aviation and Transport Aviation	Property	Casualty	Total $000s	Total $000s
Gross premiums written		69,466	7,433	1,439				78,339	823	13,675	243	14,741	**93,080**
Net premiums earned		1,471	180	22				1,674	96	1,274	19	1,389	**3,063**
Gross claims incurred		4.178	518	46				4,743	101	1,336	23	1,460	**6,203**
Net claims incurred		1,646	175	18				1,839	44	628	8	680	**2,519**
Direct expenses incurred		94	18	3				114	15	422	2	439	**553**

A.3. Investment performance

A.3.1. Income and expenses arising from investments by asset class

CIL's asset portfolio was invested in investment grade fixed income securities during 2020. Over the period, the investment assets produced a total return of 2.63% (2019 2.12%). Investment returns were supported by capital gains, as risk-free yields fell significantly in the first quarter, driven primarily by the large monetary stimulus in response to the COVID-19 pandemic. Credit spread widening impacted mark-to-market returns in the first quarter but spreads subsequently recovered over the balance of the year, back to within pre-COVID ranges.

Following the fall in risk-free yields in the first quarter, portfolio duration was reduced by approximately 1 year as US yields reached their lower bound and there appeared limited upside from risk-free rates falling further. A shorter duration position, relative to the liability base benchmark was retained over the balance over the year.

Table A.4 below sets out net investment income by asset class for the 2019 and 2020 financial years.

Table A.4 – Net investment income analysed by asset class

Financial Year 2020	Debt Securities	Other Financial Investments	Total $000s
Interest income/(expenses)	7,032	20	7,052
Realised gains	3,440		3,440
Unrealised gains	5,366		5,366
Other (incl. investment expenses)	(1,755)		(1,755)
Total Investment Return	14,083	20	14,103

Financial Year 2019	Debt Securities	Other Financial Investments	Total $000s
Interest income/(expenses)	3,165	47	3,212
Realised gains	34		34
Unrealised gains	1,066		1,066
Other (incl. investment expenses)	(313)		(313)
Total Investment Return	3,952	47	3,999

A.3.2. Gains and losses recognised directly in equity

There were no gains and losses recognised directly in equity during the period. All investment gains and losses were recognised in profit and loss.

A.3.3. Information about any investments in securitisations

Investments were held in securitisation vehicles in the form of debt securities. These securities consisted of AAA-rated residential mortgage backed securities ("RMBS") and AAA-rated asset backed securities ("ABS").

The fair value of investments in securitisations as at 31 December 2020 was $2.9m (2019: $6.0m).

A.4. Performance of other activities

A.4.1. Other material income and expenses incurred over the reporting period

CIL has no other material income and expenses incurred over the reporting period.

A.4.2. Leasing arrangements

CIL has no material leasing arrangements.

A.5. Any other information

There is no other material information to disclose regarding CIL's business and performance.

B. System of governance

B.1. General information on the system of governance

The System of governance section of this report sets out information regarding the system of governance in place within CIL. This includes a description of the CIL Board, executive committees and a description of the roles, responsibilities and governance of CIL's key control functions of risk management, compliance, and internal audit.

B.1.1. Overview of the Group's Governance Framework

CIL is the UK operating entity within the Convex Group and carries out the business of insurance and reinsurance. It was incorporated on 30 January 2019, authorised by the PRA on 30 April 2019 and is regulated by the PRA and FCA. CIL underwrites risks located in many different parts of the world on an insurance and reinsurance basis. In addition, CIL was added to the National Association of Insurance Commissioners ("NAIC") Quarterly Listing of Alien Insurers on 1 October 2019 which means that CIL is able to write excess and surplus lines insurance across the United States.

CIL has established a robust governance and control framework that includes levels of authority, accountability, responsibility, oversight and challenge and is supported by a 'three lines of defence' model.

CIL Governance Framework – Governance Structure

CIL Boards

CIL is governed by a Board of directors which is responsible for leadership and control, setting strategic direction, promoting the success of the company and exercising oversight. The Board operates within its Terms of Reference and according to established principles and requirements of good governance. It meets at least four times a year and receives sufficient and timely information to ensure that the Board and directors can fulfil their corporate and individual responsibilities.

The CIL Board consists of a Chairman, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and four independent non-executive directors, one of whom is the senior independent director.

The Board has established an Audit Committee consisting of non-executive directors in order to assist it with the oversight of financial and other controls. The Audit Committee operates under Terms of Reference and is responsible for supporting the Board to maintain systems, practices and processes for the internal and external audit of the company's business which are appropriate given the nature, scale and lines of its business and to maintain effective internal quality control and risk management systems regarding financial reporting. The Audit Committee reports to the Board on these matters.

Certain members of the Board hold Senior Management Function ("SMF") positions under the PRA and FCA Senior Managers and Certification Regime ("SMCR"). The Chairman holds an SMF position, the two executive directors, the CEO and CFO also hold SMF positions and of the four non-executive directors, the Chair of the Audit Committee and Senior Independent Director also hold SMF positions.

CIL Executive Committees

CIL has established a CIL Executive Committee consisting of key executives under the leadership of the CIL CEO. The CIL Executive Committee meets on at least a monthly basis and is responsible for supporting the CEO in exercising the authority delegated by the CIL Board for the management of CIL. CIL executives also participate in the Convex Group executive committees, namely, the Group Executive Committee and other internal Group executive committees.

B.1.2. Board Responsibilities

The Board's role is to be collectively responsible for promoting the long-term sustainability of the company, generating value for shareholders in a manner which also allows it to discharge its responsibilities to its stakeholders whilst maintaining compliance with legal and regulatory requirements. The Board sets the purpose, strategy and values of the company and seeks to ensure that the culture within the company is aligned with these. The Board is also responsible for setting the company's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the company is adequately resourced.

The Board's responsibilities include taking account of other stakeholders including employees, intermediaries, third party partners, policyholders and customers. This includes ensuring that an appropriate system of risk governance is in place throughout the Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence model' to ensure that CIL is managed in accordance with the risk appetite established by the Board.

B.1.3. Control Framework

The Board retains ultimate responsibility for the company's systems of internal control and the risk management framework. They review the effectiveness through the establishment of an effective governance and monitoring process. This includes regular reporting and in-depth monitoring of the establishment and operation of prudent and effective controls.

CIL operates a 'three lines of defence' controls framework whereby the business implements first line controls so as to ensure that the front-line business units comply with the requirements set by the Board regarding risk appetite and control. The Compliance and Risk Management functions undertake monitoring to provide second line assurance that these controls are effective, meet the expectations of our regulators and are in accordance with the company's risk appetite.

The Internal Audit function provides independent oversight across CIL and reports to the Audit Committee of the CIL Board.

As this is the second year of operation, all three lines are still in the process of building out their respective capabilities and further maturing and embedding relevant processes and controls. The respective responsibilities of each line are shown below:

First line: Management Monitoring
Management is responsible for implementing and monitoring the system of internal control to ensure key business objectives are achieved and for complying with the risk appetite and controls set by the CIL Board.

Second line: Risk and Compliance functions
The Risk function is accountable for developing the Risk Management Framework ("RMF") and for the quantitative and qualitative oversight and challenge of the process to identify, measure, manage, monitor and report ("IMMMR") risk. As the business responds to changing market conditions, customer needs and regulatory requirements, the Risk function regularly monitors the appropriateness of the company's risk policies and the RMF to ensure they remain up to date.

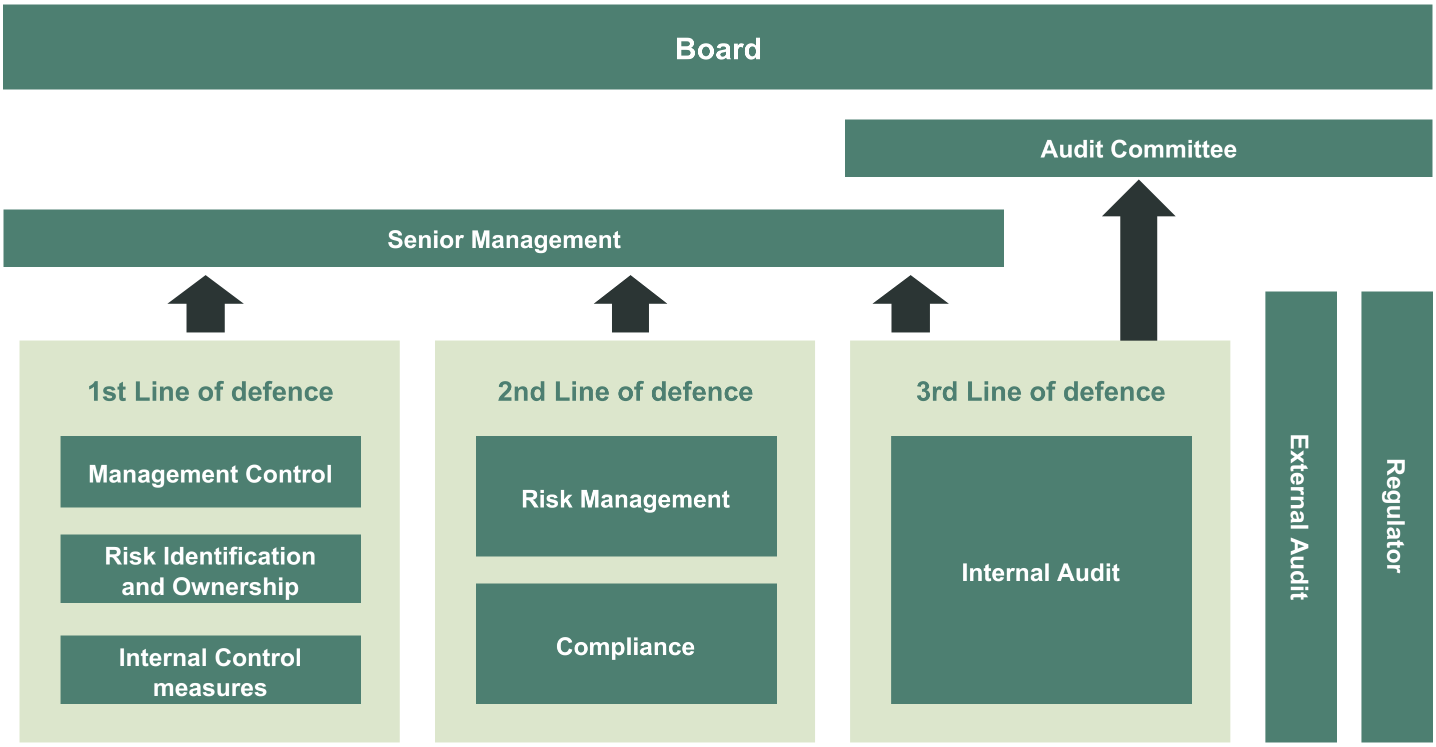
The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks; in this regard the Compliance function acts as part of the first line of defence. Compliance also monitors, evaluates and provides assurance on the effectiveness of the first line controls and therefore also acts as part of the second line of defence. In addition, Compliance is also accountable for monitoring and reporting on the performance of CIL against the conduct risk metrics agreed by the Board.

Third line: Internal Audit
This function provides independent and objective assurance on the robustness of the RMF and the appropriateness and effectiveness of internal control to the CIL Audit Committee and the Board.

CIL Three Lines of Defence Model

Diagram 2 below sets out the structure of CIL's three lines of defence model.

Diagram 2 – Three lines of defence model



B.1.4. Remuneration

CIL's reward principles and arrangements are designed to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the company's approach to sound and effective risk management. These principles adhere to the PRA's remuneration requirements as per PRA SS10/16, including the identification of Solvency II staff. The remuneration approach is aligned to the company's strategy, incentivises achievement of the company's annual business plan and longer-term sustainable growth of the business, and differentiates reward outcomes based on performance and behaviour that is consistent with the company's values. The remuneration approach provides market competitive remuneration and incentivises all staff members to contribute towards both the annual business plan and the longer-term strategic objectives of the company. Variable remuneration can be zero if performance thresholds are not met.

Remuneration of staff is split between the following components:

- Basic salary informed by individual and business performance, levels of increase for the broader UK employee population and relevant pay data;
- Variable components (based on a balanced scorecard of targets and performance);
- Pensions; and
- Benefits.

Non-executive directors receive a basic annual fee in respect of their Board duties. Further fees are paid for membership and, where appropriate, chairing Board committees. Fees will be reviewed annually taking into account market data and trends and the scope of specific Board duties.

B.1.5. Material transactions during the reporting period with shareholders, persons who exercise a significant influence on CIL and with members of the Board

The Company did not have any material transactions in the reporting period with persons who exercise significant influence or senior executives.

The Company enters into transactions with other Convex group entities in the normal course of business. The most material transactions are the reinsurance cessions to the Company's immediate parent company, Convex Re Limited ("CRL").

B.2. Fit and proper requirements

B.2.1. Specific Requirements Concerning Fit and Proper

As per the SMCR requirements, individuals who are performing either an SMF, a Certification role or are notified non-executive Directors are required to be assessed for their fitness and propriety at appointment and on an on-going basis by CIL.

Assessing a person's fitness and propriety includes an assessment of:

- His/her honesty, integrity and reputation;
- His/her competence and capability, including whether the person satisfies any relevant FCA training and competence requirements; and
- His/her financial soundness.

The CIL Board identifies the skills and experience that are required at Board level, including the appointments of executive directors or independent non-executive directors, so as to ensure the relevant diversity, experience, skills and knowledge required for effective oversight and challenge.

B.2.2. Policies and Process for assessing fitness and propriety

CIL has policies in place to ensure that the individuals that are employed by the company are Fit and Proper in accordance with the requirements set by the FCA and PRA. CIL operates under the SMCR rules and those individuals that undertake Senior Management Function roles are approved by the FCA/PRA through the application and interview process.

Where those individuals are not already identified as an SMF and are identified as 'Material Risk Takers', 'Key Function Holders' or hold a role that includes significant responsibility for a significant business unit, these individuals are subject to the requirements of the Certification Regime. CIL holds the responsibility for assessing the fitness and propriety of these individuals.

To ensure that CIL identifies and recruits appropriate people to perform the SMCR roles, the individual is assessed for:

- Fitness: skills and experience must be adequately matched to the role they are being employed to undertake.
- Propriety: checks are in place to ensure that an individual is honest, of good reputation, has integrity and is financially sound.
- Regulatory References: Dating back six years, with the questions aligned to the requirements set out in SYSC 22.

A basic level of screening is applied to all employees. Individuals falling within the SMCR are additionally subject to the enhanced screening process that includes Disclosure and Baring Service checks, or equivalent agencies in Scotland, Northern Ireland and overseas regulators where the candidate has spent a considerable amount of time working in another country.

Fit and Proper assessments are carried out on an annual basis, although it is made clear to individuals that should they consider that they may have incurred a breach of the requirements, it is their responsibility to report this to HR immediately.

B.2.3. Culture and on-going monitoring

At CIL the importance of fitness and propriety is reinforced by the culture set by the Board and this is expressed through:

- Mandatory training that all staff need to complete on an annual basis.
- Assessment of fitness to perform the role through the on-going performance management discussions.
- Ability for individuals to report where they consider there are barriers to them being able to perform their role such as not being provided with sufficient time or staff or where they have identified a training need.
- Completion of the annual fit and proper assessments reported to the CIL Board.
- Adherence to the applicable conduct rules as per the requirements under SMCR.

B.3. Risk management system including the ORSA

B.3.1. Description of the Risk management system

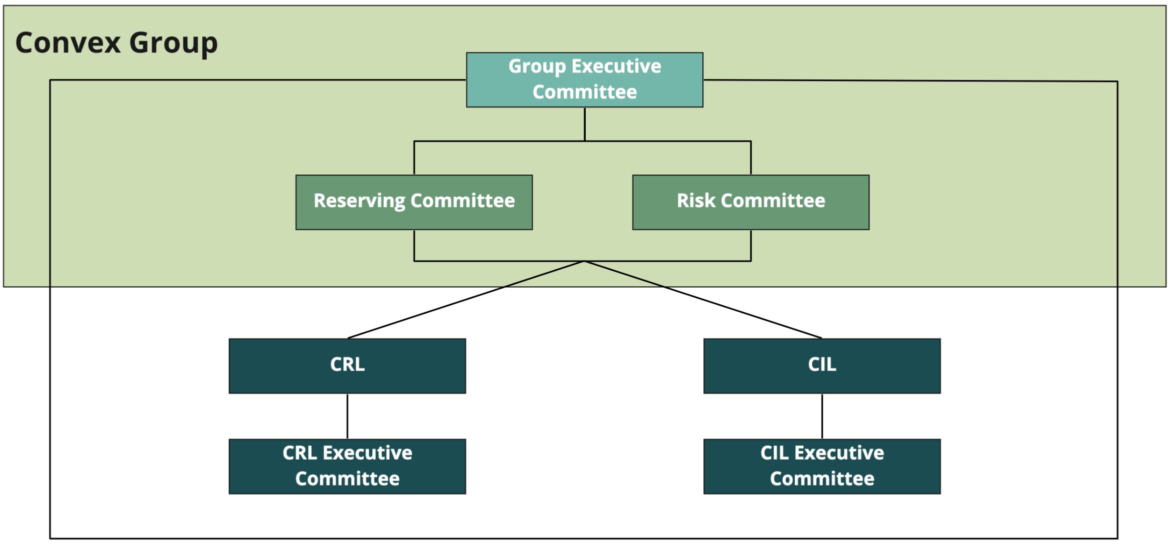
Risk Management Overview

Risk is defined by CIL as being the possibility of an adverse circumstance that will have a negative impact on CIL or its objectives. The CIL Risk Management Function provides risk oversight of the business for all risk types and categories. Oversight of the function's operations is provided by the Group Executive Risk Committee and the Group Executive Committee ("GEC"), as well as the CIL Executive Committee ("UKEC"). The Risk Management Function is led by the Group Chief Risk Officer ("CRO"), who attends Board, GEC and UKEC meetings, and chairs the Group Executive Risk Committee.

CIL is part of the Convex Group. The Reserving Committee and the Risk Committee are Group Executive Committees, however, their oversight and responsibilities span across all of the entities of the Group, including CIL. A number of CIL Executives (CIL CEO, CIL CFO, CIL CRO) are members of these Committees to represent CIL. UKEC review and approve relevant CIL matters discussed at either the Group Executive Reserving Committee or the Group Executive Risk Committee and UKEC can escalate any matters for review or discussion to these Group Executive Committees.

Diagram 3 below sets out the executive committee structure for Convex Group, to provide a comprehensive overview of the committees relevant to CIL.

Diagram 3 – Convex Group committee structure



B.3.2. Implementation of the risk management system

Risk Management Implementation

The following sections detail how the Risk Management Function and System are implemented within CIL.

Risk Strategy

The Risk Management Function and the Risk Management Framework support CIL in pursuit of the achievement of its business goals within the established risk tolerances. The Risk Management Function provides oversight, monitoring and challenge. As CIL grows, the Risk Management Function and Framework will continue to evolve to remain adequate for the company's business and risk profile. The Risk Management Function supports CIL in achieving the following:

- Lead the development and implementation of the risk strategy across CIL and the wider Group;
- Implement and embed effective risk management frameworks across CIL and the wider Group;
- Coordinate an effective Own Risk and Solvency Assessment ("ORSA") process;

- Oversee and implement an effective risk identification, assessment, management and monitoring process across CIL and the wider Group;
- Monitor risk exposures against approved risk appetite statements and limits;
- Carry out quarterly and annual risk and control assessment;
- Establish appropriate risk policies and processes for CIL and ensure they are in place to meet regulatory requirements;
- Provide risk management information to the CIL Board and Executive Committee on the current concerns, risks and incidents affecting the business, as well as exposures against approved risk appetite limits;
- Carry-out risk deep-dives across the business to assess key risks and the effectiveness of the controls in place;
- Lead the implementation of the climate change risk framework;
- Engage with the business on a number of ad-hoc projects/initiatives to provide risk oversight and when relevant provide risk opinions;
- Deliver risk training; and
- Further information on the role and responsibilities of the Risk Management Function can be found in the Group Risk Management Function Charter.

CIL takes risk seriously, and a strong risk culture is embedded within the business. Risk and assurance reviews are embedded with the first line to ensure risks are adequately identified and mitigated. For example, the Actuarial function is a key stakeholder from the first line in managing underwriting and solvency risks on a day-to-day basis. CIL aims to differentiate itself from its peers and its business model requires a strong underwriting and operating cost discipline. As a result, the first line plays a strong role in identifying and managing risks.

The CIL Board is responsible for the company's risk and internal control framework, including setting and approving the company's business strategy, determining its risk appetite, establishing appropriate risk policies and monitoring capital requirements and risks against the agreed risk appetite and in line with the risk appetite statements.

A number of processes support the Risk Management Framework including:

- Risk Appetite framework;
- Risk Governance;
- Solvency and Risk Assessment Reports (including the ORSA);
- Risk registers;
- Regular risk reporting;
- Control Frameworks; and
- Risk policies, procedures, systems processes and controls.

Risk Management Process

1) Risk identification – What might affect CIL and its objectives?

The risk identification process enables CIL to identify the risks, including emerging risks, that the company is facing, and to monitor and mitigate them. The Risk Management Function has defined the Risk Universe in which CIL operates.

A key component of the risk identification process at CIL is the Risk Register. CIL has a comprehensive Risk Register which is mapped against the risk universe. The most material risks included in the Risk Register are reported to the CIL Board on a quarterly basis. The Risk Management function reviews and updates the Risk Register on a quarterly basis.

The effective management of emerging risks is essential for maintaining CIL's business strategy and underwriting performance. It helps to identify external trends, threats and opportunities, and improves risk selection and knowledge of future risk exposures.

The Risk Management team together with relevant stakeholders from the business review the emerging risks landscape for the year ahead and assess the impact on CIL's business profile and strategy. This process is performed in conjunction with the Oracle Partnership, an advisory group that specialises in agenda-setting foresight and strategic advice for future threats and opportunities. This annual emerging risk assessment also feeds into the ORSA process and ORSA report.

The Risk Register is the repository of all material risks and controls in the company. It is one of the Risk Management function's most important risk management and monitoring tools and drives a significant portion of risk reporting to the CIL Board, CIL Executive Committee and Group Executive Risk Committee on a quarterly basis.

The fundamental sources of risk give rise to the following top-level risk categories that form the risk universe:

- Credit risk – such as risks of coverholder or reinsurer default.
- Market risk – such as investment value risk.
- Liquidity risk – such as failing to meet on-going financial obligations as they fall due.
- Insurance risk – such as aggregate exposures and reserves.
- Operational risk – such as operational resilience and disaster recovery.
- Regulatory risk – such as conduct risk and regulatory compliance.
- Strategic risk – such as incorrect assessment of insurance market.

Within these categories, CIL reports on Regulatory and Conduct risks within Operational risk, and Market and Liquidity risks together.

2) Risk Assessment – Which uncertainties can impact CIL and its objectives the most?

The Risk & Control Assessment ("RCA") process allows CIL to identify key risks, assess the materiality and status of the risks and controls, and then use this information to manage the CIL risks and potential impact to Group risks, and review and monitor them on a periodic basis. The outcome of the RCA process is shared with the relevant stakeholders, CIL Executive Committee, CIL Board and the Group Executive Risk Committee on a regular basis.

Risk owners, and/or responsible persons, are responsible for the identification and day-to-day management, implementation of controls and regular monitoring and reporting of the risk status. The Risk Management function holds quarterly risk and control assessment meetings with risk owners to review and provide challenge on the function's risk profile and effectiveness of controls in place.

All risks in the Risk Register are assessed in terms of their impact on the business and the current risk performance.

Risk impact is used to highlight the most material risks to each Convex entity using a 1-5 ranking scale, with 1 being the lowest impact and 5 being the most material. Each risk is quantified on at least an annual basis to assess the financial impact of the risk should they occur at different return periods, with and without controls in place. When the financial impact is agreed with the business the Risk team will take the 1/25 residual impact and overlay the operational, reputational and regulatory impact (also on a 1-5 scale) and the most material impact will be taken. Risk impact is not expected to change materially on a quarter-by-quarter basis for most risks, though any changes to the business environment or plan will need to be reflected in the impact scores.

The risk performance is the current level of concern the risk owner/responsible person has for the risk. The rating takes into account the control performance, risk appetite metrics (where applicable or relevant), risk incidents and internal/external environment. The risk performance is based on a four-point scale (red, amber, yellow or green).

Together the risk impact and performance incidents where the Risk team should focus their attention on those risks that have the worst performance but also have a high materiality and will be displayed via a heat map with an 'area of focus'.

3) Risk Mitigation – What will we do to manage these risks?

Risk Mitigation is the process of reducing the potential adverse effects of a risk down to an acceptable level i.e. within CIL's risk appetite. Risk mitigation is mainly achieved through the implementation of controls and management actions. It is the responsibility of each function within CIL to own and manage their internal control environment. Risk Management provides an independent second line view of each function's internal control environment and reports findings to the relevant committees. Risk Management reviews the effectiveness of CIL control environment on a quarterly basis.

Each control is scored for operational effectiveness (effective, partially effective, ineffective or not implemented) by the Control Owner, with oversight and appropriate challenge from the Risk Management Function.

4) Risk Monitoring – Is the management of risk working effectively?

Risk Monitoring is an important part of the risk management process. Effective risk monitoring ensures that CIL is operating within risk appetite and tolerances. It is a continuous and dynamic process of keeping track of identified risks and monitoring residual risks for any changes. It is also used to monitor the effectiveness of controls over time.

Effective risk monitoring enables CIL to make effective decisions on risks in advance of these materialising. It helps to ensure that the correct risks continue to be represented on the Risk Register, reflecting the changing risk profile of the business and ensures that the correct risk response actions have been implemented and are effectively working.

All identified material risks are monitored through the Risk Register to ensure risk profile changes are identified early, allowing appropriate mitigating actions to be applied in order to prevent negative outcomes. Any material changes identified form part of the risk reporting to the CIL Board, CIL Executive Committee and Group Executive Risk Committee.

In addition to the Risk Register and the regular risk assessment process, the Risk Management function has in place other second line risk monitoring tools and activities such as risk management deep dives, emerging risks working group and reverse stress testing exercises.

5) Risk Reporting – Who needs to know about the status of risk management?

The purpose of Risk Reporting is to provide management with useful information, allowing them to make effective decisions about the risks the business faces. Risk Reporting is a regular, continuous and important process for CIL as it builds alignment and transparency of risk information between the business, management and the executive. The Risk Management Framework, system and processes facilitate this reporting throughout the year, allowing CIL's Board to review and challenge risk information and make informed decisions about the changing risk profile of the business.

Information from the Risk Register is aggregated, analysed and presented in the risk report to the Executive Committee and Board, showing the current concerns and most material risks to the business and quarter-on-quarter changes in risk profile.

The Risk and Incident Report also provides the Board and the Executive Committee with the Risk Management Function's opinion on the risks faced by each area of the business. The report is a combination of qualitative and quantitative information. Qualitative commentary is provided to support understanding of the current risk environment as well as the future risk outlook for the next reporting period.

This provides an opportunity for breaches and key trends to be explicitly raised by the Risk Management Function, where relevant.

B.3.3. Own Risk and Solvency Assessment (ORSA)

ORSA Overview

Overall responsibility for the ORSA framework, output and policy lies with the CIL Board. This policy is reviewed annually by the Risk Management Function and approved by the CIL Board in Q1 of each year.

The ORSA requires inputs from a number of key CIL business activities including but not limited to:

- Strategy and business planning: The forward-looking assessment section of the ORSA, which is the assessment of CIL's strategic goals made up of the strategy and business planning processes;
- Risk profile: Assessment and understanding of the current and emerging risks facing CIL across all risk categories, this element also includes stress and scenario testing and other RMF techniques to assess risk impacts;
- Risk appetite: Reviews appetites and tolerances to allow CIL to measure the level of risk currently being taken;
- Capital requirements: Assessment of CIL's regulatory capital requirements; and
- Solvency Assessment: Assessment of CIL's solvency against requirements.

The ORSA provides a framework to enable the CIL Board to be aware of the impact strategic decisions have on the risk and overall solvency needs of the business. The main outcomes of the exercise reported to CIL Board in relation to the ORSA are:

- The capital and solvency position – the capital assessment is produced based on the risk profile of the firm and its business plan. Solvency has also been considered under both normal and stressed conditions;
- The risk profile of the firm is reviewed and reported. The ORSA is based on the risk profile of CIL;
- The risk appetite of the firm forms a key part of the risk profile reporting throughout the year and the CIL Board is regularly informed of the position of the firm against its agreed risk appetite; and

- The adequacy of the standard formula and an assessment of any risk category which deviates significantly from the standard formula parameters.

ORSA Oversight
Oversight of the ORSA process and report is provided by the Board and relevant committees, as follows:

CIL Audit Committee	• Provide independent oversight of the ORSA process through internal audit reports
CIL Board	• Review and sign off the ORSA process and annual ORSA report • Review and challenge the quarterly risk and incident report • Review and challenge the quarterly risk appetite dashboards and liquidity risk reports • Review and sign off the results of any event driven ORSA reports arising from material changes to the business or business operating environment
CIL Executive Committee	• Review the Annual ORSA Report and recommend to the CIL Board for approval • Review the quarterly risk appetite dashboard • Review the quarterly risk and incident report • Review the monthly liquidity report and the monthly financial market risk dashboard
Group Executive Risk Committee	• Review the ORSA Policy • Review the ORSA process and the annual ORSA report • Review the quarterly risk and incident report
Group Executive Reserving Committee	• Review the technical provisions and will make recommendations to the CIL Board for sign-off

Supporting IT Systems
CIL uses the RisKonnect ERM database system to capture pertinent details about risks, controls and risk metrics in support of the ORSA process.

This is a system built upon the market leading cloud-based Salesforce Customer Relation Management systems and has been configured to meet the specific requirements of CIL.

Risk Management and Risk Appetite Frameworks
The ORSA process is built upon the established and embedded Risk Management Framework and Risk Appetite Framework. A full description of these frameworks is provided in the relevant internal documentation. A summary of the purpose of these frameworks is listed below:

- Establish the risk management governance requirements.
- Ensure a regular review of the risk profile takes place in relation to the strategic and operational objectives of CIL.
- Ensure a regular review of the internal controls and mitigation plans designed to manage identified risks takes place.
- Ensure metrics to support assessment of risks are regularly gathered and reported.
- Ensure that regular review of the appetite for seeking or tolerating risk in pursuit of Convex's strategic and operational objectives take place.
- Ensure that regular reporting of the status of risks against risk appetite to executive committees and the CIL Board takes place.

Reporting
ORSA reporting occurs throughout the year via the quarterly risk and incident reporting, including the quarterly risk appetite dashboard, and also in an annual standalone report to the CIL Board and to the PRA.

The quarterly risk and incident report contains information on all major risk categories considered by CIL, and includes current concerns, emerging risks, information on incidents, and risk appetite metrics.

Separately, the annual ORSA report:

- Recognises the risk, governance and management processes across CIL;
- Conveys the strategy, capital and risk matters for the CIL Board to review and challenge; and
- Identifies the material one-year and three-year risks to the business and confirm that these are monitored throughout the year through the ORSA process.

The results and conclusions of the annual ORSA report are presented to the CIL Executive Committee for review, and ultimately to the Board for sign-off.

ORSA Process

The ORSA process considers all key risks faced by CIL, including Insurance, Operational, Credit, Market & Liquidity, Strategic and Group risk, as well as risks included within the SCR calculation.

CIL completes an annual Stress Testing and Scenario Analysis exercise to identify and quantify potential stress events that could heavily impact the performance and financial resilience of the business. The Risk Management Function involves relevant subject matter experts from key business and functional areas in stress and scenario testing development and selection. This is reported to the Group Executive Risk Committee and included in the annual ORSA report.

Sensitivity analyses are carried out on the business plan as part of the planning cycle, at a Group level, to challenge the resilience of the plan and financial impacts of further potential risks to the plan.

The Risk Management Function uses the emerging risk process, in conjunction with the Oracle Partnership, to establish a list of the top emerging risks that Convex should consider. The emerging risk landscape is reviewed twice a year, with an annual emerging risk summary included in the annual ORSA report.

CIL uses the existing forward-looking assessment process as part of its ORSA activities. The results of this process are included in the annual ORSA report. Forward looking activities include:

- The Financial Planning and Analysis function meeting with Senior Management to gain their strategic views for the 3-year planning period;
- The Financial Planning and Analysis function holding discussions with the Chief Underwriting Officers (Insurance and Reinsurance) to identify growth target, reinsurance trends, assumptions for rating levels and key risks facing the firm;
- The Board signing-off the business plan and risk and capital projections; and
- Independent challenge from the Risk Management Function on the three-year business plan, risks to the plan and capital requirements.

Capital Requirements Calculation
CIL has adopted the Standard Formula approach to calculating its SCR. The SCR is calculated by the Actuarial Team and signed off by the CIL Chief Actuary. To ensure that the SCR is appropriate for the risks faced by CIL, it is validated annually. This is carried out via an assessment of the assumptions underlying the Standard Formula versus the risk profile of CIL, and any key differences are be documented in the annual ORSA report. An overall assessment of the suitability of the SCR to calculate regulatory capital for CIL based on these differences is also included in the annual ORSA report.

Solvency Assessment
The Finance function undertakes a periodic assessment of the funds available to support CIL's economic capital requirements, ensuring that the proportions of available Tier 1, Tier 2, and Tier 3 capital categories meet or exceed the requirements of the SCR.

ORSA Frequency
The ORSA process is continuous. There are quarterly risk updates to the Group Executive Risk Committee and CIL Executive Committee and CIL Board containing information on Insurance, Financial and Operational risks as well as an update on departmental control environments, incidents and near misses during the quarter and results of CIL's comprehensive risk appetite metric process. This is supported by an annual ORSA report.

Ad hoc ORSAs and Triggers
An ad hoc ORSA may be run outside of the regular cycle in response to certain triggers. This may be a full ORSA or a partial ORSA (where only a sub-section of the ORSA process is impacted). The principle of proportionality is applied to the running of an ad hoc ORSA.

Change to CIL risk profile
The Group Executive Risk Committee will determine whether or not a full or partial ORSA run is required, upon the recommendation of the Risk Management Function. The Group Executive Risk Committee will take into account and advise to the CIL Board the following potential triggers for an ad hoc re-run:

- Material change to the CIL risk profile:
- More than 15% change in total SCR relative to the position of the previous quarter;
- More than 25% change to a risk category 1:200 result on a stand-alone basis, relative to the position in the previous quarter and more than 5% of total SCR;
- Failure in underlying controls or risk assessment process leading to an incorrect assessment of capital requirements;
- Significant insurance loss, especially major or multiple natural catastrophe events;
- Major financial market shock;
- Major change in the business plan (deviation of 15% or more of Gross Premiums Written ("GPW") or of underwriting performance); or
- Failure of counterparties or reinsurers, where there is significant exposure.

If one of the above triggers occurs, the decision to run a full or partial ORSA report would be made through consultation involving, at least, the CIL CRO, the CIL Chief Actuary, the CIL CFO and the CIL CEO.

B.4. Internal control function

B.4.1. The internal control system

CIL's internal control function comprises the Risk and Compliance functions, as second line of defence functions. In addition, control activities are carried out by the first line to mitigate risks across the business, and further oversight of this control environment is provided by both internal and external auditors.

Control activities are carried out by control owners within the business as part of the Risk Management Framework. These controls are assessed at least annually, though most are reviewed on a quarterly basis to ensure that any deficiencies in the environment are known, and appropriate actions can be taken to improve the overall control function. These controls serve to reduce the likelihood of occurrence of risks, to ameliorate any impact caused by the risk crystallising, or to enable early detection of the risk's impact.

B.4.2. The Compliance function

The primary purpose of the Compliance function is to assess and manage the company's exposure to regulatory risk. The Compliance function is an integral part of CIL's Risk Management system and constitutes a key part of the company's corporate governance. The Compliance function manages the relationships with the PRA and FCA and other regulatory bodies and is committed to transparent and constructive relationships with regulators. The Compliance function works closely with the Legal function and also with the Risk Management and Internal Audit functions.

The Compliance function activities include:

- Horizon scanning and identification of forthcoming regulatory changes;
- Identification of conduct risks and supporting the Board in agreeing measures including metrics and conduct risk appetite;
- Providing advice, support, guidance, and challenge to the business in regards conduct risk, regulatory requirements and financial crime;
- Managing regulatory engagement with regulators, including financial crime and data protection;
- Undertaking on-going and ad hoc monitoring of the controls implemented by the business and report findings to the CIL Boards;
- Managing compliance risks with outsource partners, ensuring that they are aligned with CIL culture and risk appetite;
- Setting the financial crime policy and sanctions framework;
- Escalating identified risks and breaches to management and the Board;
- Liaising with internal audit regarding key risk areas and effective use of monitoring and audit inspections;
- Participating in the CIL Executive Committee; and
- Reporting to the CIL Board.

The Compliance function is headed by the Chief Compliance Officer who holds the appropriate SMF position. The Chief Compliance Officer reports to the CIL CEO.

B.5. Internal audit function

B.5.1. Implementation of the internal audit function

The Purpose, Authority and Responsibility of the Internal Audit function is defined within the Internal Audit Charter. Internal Audit's mission is to provide reliable independent and objective assurance to Convex Group Limited and its subsidiaries Audit Committees, and to the Convex Group Executive Committee and subsidiary Executive Committees on the adequacy, effectiveness and sustainability of the system of internal control.

Adequate and effective risk management, internal control, and governance processes reduce but cannot eliminate the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented or overridden, and the occurrence of unforeseeable circumstances. Adequate and effective risk management, internal control, and governance processes therefore provide reasonable, but not absolute, assurance that the Group will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

Internal Audit maintains a professional audit team with sufficient knowledge, skills, experience and professional qualifications. Where specialist technical support is necessary to supplement Internal Audit resource, this is available through a co-sourcing contract with external specialist firms, ensuring that Internal Audit has immediate access to specialist skills where required.

On an annual basis, Internal Audit confirms to the Audit Committees that the International Standards for the Professional Practice of Internal Auditing of the Chartered Institute of Internal Auditors are complied with. Internal Audit operates within the Company's three lines of defence model. In order to operate an effective framework Internal Audit maintains regular and on-going dialogue with the first and second line functions to maintain a current and timely perspective of business direction and issues. Demarcation between the third line of defence and the first two lines must be preserved to enable Internal Audit to provide an independent overview to Audit Committees on the effectiveness of risk management and assurance processes within Convex.

Internal Audit's methodology provides a series of different assurance responses to a variety of scenarios to give stakeholders the most appropriate type of assurance as follows:

- Risk-based internal audits – Internal Audit's standard audit response, this methodology will also be used to respond to most management requests for assurance and focuses on assessing the adequacy and effectiveness of key controls mitigating High risk areas.
- Programme & Project Assurance – a series of risk-based assurance responses to programmes and projects. This differs from standard risk-based audits in that it focuses on key controls as well as the commercial aspects of the programme, such as benefits realisation.
- Close and Continuous – this involves Internal Audit having regular meetings with key stakeholders and attending decision making forums as appropriate. It will also include on-going assessment of key documents as they are produced. Any concerns will be raised with management at an early stage to allow the programme to address them in a timely manner.

The above are communicated through the following methods:

- Reporting to the Audit Committees, including thematic reporting. Quarterly reporting is provided to the Audit Committees, where the Head of Internal Audit attends to summarise the output within the reporting period and provide an opinion on a number of key risk themes.
- Reporting to the Convex Group and CIL Executive Committee, where the Head of Internal Audit presents a summary of the key successes/challenges within the period.
- Internal Audit reports. In addition to the audit client, Internal Audit reports are issued to all executive management and relevant members of the business and the external auditor. Reporting of issues focuses on describing the control breakdown or failure, who was responsible, and the risk that has materialised or could potentially materialise. In response to the issues raised by Internal Audit, management are required to document the steps they are taking to address the issue, provide a realistic timescale and, importantly, the action is assigned a single owner to enhance accountability.

B.5.2. Maintaining the independence of the Internal Audit function

To ensure the independence of Internal Audit, the Group Head of Internal Audit, a senior position within the Group, reports functionally to the Chair of the Convex Group Limited Audit Committee, to the Chair of the subsidiary legal entity Audit Committees, and has a secondary reporting line to the Group Chief Executive Officer. The Convex Group Limited Audit Committee approves the performance evaluation, appointment, or removal of the Group Head of Internal Audit, and reviews his/her annual remuneration each year.

Internal Audit is functionally independent from the activities audited and the day-to-day internal control processes of Convex and is therefore able to conduct assignments on its own initiative, with free and unfettered access to people and information, in respect of any relevant department, establishment or function of the organisation, including the activities of subsidiaries and outsourced activities. The Group Head of Internal Audit and audit staff are not authorised to perform any operational duties for the Company or wider Group, or direct the activities of any employee not employed by Internal Audit.

To ensure that the system of governance works efficiently and effectively, Internal Audit work together and co-operate with the other assurance functions in an appropriate open and collegiate way (for example, Risk Management and Compliance). Where such co-operation takes place, the work will be planned and carried out in such a way as to ensure that the independence and objectivity of Internal Audit remain safeguarded.

B.6. Actuarial function

The Actuarial function is led by CIL's Chief Actuary ("CA"), who reports to the CIL CEO. The Actuarial function is accountable for actuarial methodologies and calibrations. It also considers the appropriateness of the capital modelling activities. The Actuarial function produces an annual report to the Board providing information necessary for the Board to form their own opinion on the adequacy of technical provisions and capital requirements, and on underwriting and reinsurance arrangements.

The Actuarial function has the authority to review all areas of the Company and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The independence of the Actuarial function is derived through its organisational separation from other functional areas. The CA ensures that those persons employed by the Actuarial function in a defined actuarial role are subject to the Fit and Proper policy requirements to ensure they have the requisite skills and knowledge to complete their responsibilities.

B.7. Outsourcing

B.7.1. CIL outsourcing policy

The CIL culture challenges the status quo and incorporates innovation, flexible working and collaboration in our day-to-day working. Working with our outsourced business partners (both third parties and within the Convex Group) based in the UK, Bermuda and Asia, we believe that we can provide the best support to our underwriters, with nimble, efficient systems and processes to help them make the best decisions and provide value-added service excellence to our clients and brokers.

CIL has considered the impact of all outsourcing and is establishing:

- effective processes to identify, manage, monitor and report risks;
- methods for assessing the standard of performance of the service provider;
- appropriate escalation measures if the service provider may not be carrying out the functions effectively and in compliance with applicable laws and regulatory requirements;
- the necessary expertise to supervise the outsourced functions effectively; and
- the right to terminate the arrangement without detriment to the continuity and quality of its provision of services to clients.

CIL also works to ensure that the service provider must:

- have the ability, capacity, and any authorisation required by law to perform the outsourced functions, services or activities;
- disclose any material impact on its ability to carry out the outsourced functions effectively;
- protect any confidential information relating to the CIL and its clients;
- establish, implement and maintain a contingency plan for disaster recovery and periodic testing of backup facilities having regard to the outsourced function, service or activity; and
- obtain prior approval from CIL for the use of sub-delegates and warrant that the primary contract terms and conditions extend to the sub-contract with such sub-delegation.

CIL recognises that the responsibility and accountability of all outsourcing functions remains with the CIL Board who will ensure that due diligence, expertise and skill is exercised when entering into, managing or terminating any outsourcing arrangement. The Board also acknowledges that CIL remains fully responsible for discharging all the Solvency II Directive requirements, notwithstanding any outsourcing. Group Operations currently submits a report to the CIL Board on the performance of services by the major service providers for each Board meeting.

Where necessary, the outsourcing agreements will be reviewed annually and where material, changes are brought to the Board for consideration and approval. The governance structure for CIL's major service provider has several layers, thereby ensuring the right audience and authority is engaged for discussion and agreement, whilst maintaining overall Board responsibility and accountability.

CIL has outsourced the provision of products/services in the following categories:

- Claims Operations
- Facilities & Workspace Management
- Finance Operations
- HR Operations
- IT Desktop and Application Support

- Underwriting Operations
- Investment Management

The CIL outsourcing model will ensure that outsourcing does not result in the undue increase of operational risk, materially impair the quality of system of governance of the firm, impair the ability of supervisory authorities to monitor compliance of CIL nor undermine continuous and satisfactory service to policyholders.

B.8. Any other information

COVID-19 Working and Steering Groups were formed in March 2020 to implement and manage emergency plans to mitigate the impact of COVID-19 pandemic on CIL's operational procedures. The groups' focus has included, but not been limited to:

- Review and ongoing management of workplace (e.g. COVID-secure environment, opening and closures in line with government guidance).
- Review and ongoing assurance that our IT infrastructure is able to support remote working and manage additional volumes of teleconference collaboration.
- Assessment and ongoing monitoring of the risk level to key outsourcing partners such as WNS, as well as other suppliers / partners on whom we depend, and obtaining confirmation that they have robust business continuity plans ("BCP") and are able to deploy them as needed.
- Monitoring the wellbeing of staff to ensure they cope well with the unfamiliar context of COVID illness, social distancing and self-isolation. This includes, and is not limited to Wellbeing Questionnaires, Resilience training, provision of rapid COVID testing and updated hints and tips to support successful working from home.

  When devising the business continuity plans, 3 elements of potential impact on CIL were considered:

  1. London office closed
  2. Significant illness / inability to work amongst staff
  3. Pandemic affecting India operations of WNS

For each element, the business risks that arise have been identified and mitigation actions defined and put in place to ensure that CIL is able to operate effectively in each case. The first element initially came into force following the guidance issued by the UK Government on 16 March 2020, and at time of writing Management considers that the company is continuing to operate effectively.

Fortunately, to date there has not been significant illness amongst CIL staff.

The third element was also implemented during March/April 2020, with WNS home working capability proving resilient throughout. Productive capacity estimates are shared weekly with the CIL team to ensure WNS remains operational and effective. In addition to this, CIL took the measure of extending the onshore operational capacity from WNS in order to mitigate interim risk should there be a significant deterioration in India or capacity levels drop significantly. This has not happened to date.

C. Risk profile

C.1. Insurance risk

C.1.1. Risk description

Insurance risk contains both Premium Risk and Reserving risk; each defined at Convex as the following:

Premium Risk: the risk of uncertainty around all unexpired and planned future underwriting exposure.

Premiums may be lower/higher than expected in the business plan as a result of poor pricing and external market events impacting pricing. For example, following a severe catastrophe event in a particular region, the line of business may see sudden rate increases and therefore a tactical decision to underwrite higher volumes of premiums is made. The opposite may also occur, such as rate decreases more than expected in a particular line of business that lead to inadequate pricing for the amount of risk making it no longer viable. As a consequence, the resultant mix of business may also differ from the business plan.

Reserve Risk: the risk that current reserves are insufficient to cover claim liabilities as they fall due.

Higher non-catastrophe (attritional/large losses) claims than expected may occur due to higher claims inflation, exceptional loss events, a risk unforeseen at the time of pricing and/or contract inception and also fraud.

C.1.2. Risk mitigation

CIL mitigates its risks via the use of the following controls:

For Premium Risk:

- Monitoring premium by line of business regularly against the business plan;
- Portfolio optimisation team supporting underwriters with timely information to support risk ranking;
- Underwriting guidelines;
- Underwriting authorities;
- Pre-bind peer reviews; and
- Risk appetite limits.

For Reserve Risk:

- Monitoring claims by line of business regularly against the business plan;
- Information flow between underwriters and claims teams;
- Validation of amount of risk being taken using external data given CIL does not have proprietary experience data;
- An effective reinsurance program to protect against some adverse claims experience; and
- Technical pricing of select risks.

C.1.3. and C1.4. Measures used to assess risk and concentration

CIL uses the following tools to assess the risks, and their concentration:

- In-house exposure management tools;
- External / third-party exposure management tools;
- Regular expected loss modelling output; and
- Solvency capital calculations.

C.1.5. Material changes over the reporting period

CIL's business volumes increased significantly over 2020, resulting in an increase to the level of both Premium and Reserve Risk. As a result, CIL maintained a strong focus on continuing to develop the above controls to identify, analyse, mitigate, monitor and report on insurance risks. As the volume of underwriting continues to grow this risk will continue to increase.

C.2. Market risk

C.2.1. Risk description

Market Risk: The risk which arises from fluctuations in asset values, or interest or exchange rate.

CIL is exposed to market risk through the impact of market movements to its asset portfolio and to the market value of its insurance liabilities. Market risk impacts to the balance sheet arise from various factors, including:

- Rising interest rates and / or credit spreads of the fixed-income investments can reduce the market value of the asset portfolio. There is a natural hedge provided by the liabilities, as interest rate increases increase their market value, thus absorbing part of the impact. Hence, the net position, managed in the line with the Minimum Risk Benchmark, is sensitive to interest rate and spread movements.
- A change in foreign exchange rates could have an impact for CIL, as the investment portfolio is denominated in US Dollars ("USD"), with some cash exposures to other currencies, while future liabilities are also denominated in other currencies, including Sterling ("GBP"), Euros ("EUR"), Japanese Yen ("JPY") and Canadian Dollars ("CAD"). Adding to the liability currency exposures, there are significant operating expenses denominated in GBP. Thus, foreign exchange rate movements are expected to have an impact on future non-USD denominated liability and expense related cashflows.
- Inflation risk is an area currently under review, as insurance liabilities start to build and in the light of the current environment, where we are seeing significant increases in claims inflation, most notably social inflation in US casualty business, but also in other lines. A project has been initiated to identify, measure and mitigate inflation risk across the balance sheet.

C.2.2. Investment management in accordance with the 'Prudent Person' Principle

CIL manages its investment portfolio in line with the Prudent Person Principle as set out in Article 132 (Directive 2009/138/EC) by applying the requirements and principles described in the Financial Market Risk Framework and the Investment Guidelines. These requirements and guidelines ensure that risks in the current portfolio and in new investment proposals can be identified, measured, monitored, managed and controlled.

Assets are invested taking into consideration the profile of the liabilities in terms of timing and sensitivity to market factors.

Concentration risk limits are in place to ensure the portfolio is appropriately diversified and the overall level of risk is limited by an aggregate market risk limit. Further, CIL has no exposure to Level 3 assets, and thus has increased certainty around the valuation of financial assets.

CIL ensures the availability of assets to pay in a timely manner claims and other obligations by having in place a stressed liquidity risk framework that measures excess liquidity in stressed market conditions.

C.2.3. Risk mitigation

Market Risk for CIL is kept at a limited level, owing to the prudent investment strategy and asset allocation, which has limited exposure to higher volatility classes such as equities.

The level of Market Risk is managed by:

- Taking into consideration the market risks inherent in CIL's insurance business, expenses and other liabilities including shareholder's capital when managing the investment portfolio; and
- Setting and monitoring an Aggregate Market Risk Limit of 25% of the available risk capital, defined as a 1-in-200 probability one-year loss.
- Setting individual stress test risk limits for the respective market sub-risks at 2/3 of the Aggregate Market Risk Limit.

C.2.4. Measures used to assess risk

Measures used to assess Market Risk in the business include:

- Profit and loss results estimated using a set of stress tests, calibrated at a 1-in-200 one-year event, and subject to an overall market risk limit; and
- Capital requirements measured using the Solvency II Standard Formula to assess market risk by sub-risk and on aggregate.

C.2.5. Risk concentration

Concentration to market risk factors is monitored by the quantitative stress tests, including stress tests for:

- Interest Rate Risk (separated by primary components such as parallel and steepening or flattening movements)
- Credit Spread Risk (separated by rating, duration and type of asset)
- Equity Risk, including private equity and other illiquid assets
- Foreign Exchange Risk
- Real Estate Risk
- Hedge Funds

In addition, exposure to each market sub-risk is limited with a risk limit equal to two-thirds of the total market risk limit.

Concentrations to issuers and single investments are limited in the concentration risk framework, discussed in the credit risk section.

C.2.6. Material changes over the reporting period

As at year end 2020, the size of the investment portfolio and the liabilities was increased sizeably compared to 2019, in line with our business plan and driven by business written and capital raised. Gross premiums written in 2020 increased significantly to $832m (2019 gross premiums written: $93m) and assets under management grew to $969m. As a result, market risk exposure increased in absolute terms, but remained stable as a percentage of available capital.

The impact of COVID-19 to the investment portfolio has been minimal over the year.

C.3. Credit risk

C.3.1. Risk description

Credit Risk: the risk of loss due to the failure of a counterparty to meet its contractual obligation to repay a debt

Credit Risk arises either from the fixed income portfolio, where a default of a counterparty would incur a financial loss, or through insurance due to the regular transactions with counterparties such as brokers and reinsurance companies.

Convex's credit risks arise principally through the following exposures:

- Fixed income securities, that include investments in sovereign and corporate bonds, and collateralised securities.
- Insurance exposures arising from the political and credit risk line of business
- Reinsurance assets, where credit risk arises in relation to the reinsurance asset held.
- Other assets, including bank deposits.
- Insurance assets and receivables.

C.3.2. Risk mitigation

Credit Risk is mitigated by monitoring a set of limits that control the risk of loss from a potential failure of an individual issuer or issue. These limits aim at managing the default risk of a given issuer, depending on its rating of all bonds issued by the issuer and held by CIL (corporate, Government agency and sub-sovereign) and are defined as a percentage of the Aggregate Market Risk Limit, with higher risk investments set at a lower percentage.

Compliance with the limits is ensured through defined governance processes. The Financial Risk Management and the Investment functions monitor the exposure against the limits on a daily basis, and reports on a monthly basis, with any issuer exposure breaches reported to the CIL CFO for remediation or, in exceptional circumstances, a waiver.

Credit Risk on insurance assets is managed through CIL's Credit Control function, which monitors the ageing of receivables and overdue balances. Further, reinsurance credit risk is managed via a reinsurance approval process, which takes into account the credit rating of the reinsurer and the size of the exposure, and also by holding collateral posted by non-rated counterparties. Limits have been established for reinsurance exposures, by counterparty and Tier.

In particular, in terms of the Intragroup Reinsurance contract between CIL (the reinsured) and Convex Re Limited (the reinsurer), a collateral arrangement has been put in place whereby for the benefit of the CIL, Convex Re Limited posts collateral equal to 80% of the outstanding technical balances (i.e. the sum of unearned premiums and unpaid ultimate claims liabilities). Collateral consists of USD cash and US Government securities acceptable to CIL, and is posted in a custody account with the Convex Group's Custodian.

C.3.3. Measures used to assess risk

Credit Risk is measured in terms of exposure to default, probability of default and loss given default. A net aggregate exposures limit is in place for the overall political and credit risk portfolio.

Credit ratings are used as indicators to assess Credit Risk, measure capital and take investment decisions. CIL uses external credit ratings as well as market adjusted ratings which adjust rating according to spread levels.

C.3.4. Risk concentration

Concentration risk is monitored by a set of limits that control the risk of loss from a potential failure of an individual issuer or issue. These limits aim at managing the default risk of a given issuer, depending on its rating, and related to Investment, Treasury and Ceded Reinsurance counterparty exposures. For political and credit risk insurance exposures, counterparty and country limits are also in place to ensure concentrations are managed.

Compliance with the limits is ensured through defined governance processes. The Financial Risk Management and the Investment function monitor the exposure against the limits on a daily basis, and reports on a monthly basis, with any issuer exposure breaches reported to the CIL CFO for remediation or, in exceptional circumstances, a waiver.

As at 31 December 2020, Credit Risk is well-diversified.

C.3.5. Material changes over the reporting period

Treasury exposures to banking counterparties increased over the period, mainly to fund Letters of Credit. There has also been an increase in both premium and reinsurance receivables over the period, driven by the increased size of the balance sheet.

In March, the Investments team also took action to de-risk the credit portfolio and engaged with the external investment managers to conduct analysis across corporate credit holdings, to identify issuers whose credit quality may deteriorate in light of the market environment. This analysis resulted in a number of sales of corporate bond holdings (approximately $5m) of issuers in directly impacted sectors.

Monetary and fiscal policy response led spreads to contract, eventually finishing the year back within their pre-COVID ranges. There were no defaults realised within the investment portfolio in 2020 and only one security downgraded to below investment grade, an exposure that was subsequently sold as spreads retraced.

C.4. Liquidity risk

C.4.1. Risk description

Liquidity Risk: the risk that insufficient liquid funds are held to meet all liabilities as they fall due or that liabilities can only be met at a high cost.

Managing liquidity is about limiting the possibility of having to be forced to sell assets or borrow money to meet obligations in a stressed environment, where either the company or the market itself is weak. Such scenarios would result in a weak bargaining position for the company and will likely force it to give up value at prices below inherent worth. The costs of such events may be compounded by the potential loss of market reputation, which may leave counterparts hesitant to place longer term risks with the company and thus destroy franchise value.

The current risk appetite statement on liquidity requires that "CIL will maintain sufficient liquidity to meet its obligations when they fall due, even under a stressed scenario".

To satisfy the risk appetite statement, a Liquidity Stress Testing Framework has been put in place to ensure CIL hold sufficient liquidity to meet an extreme stressed scenario, defined as the combination of a large loss event and a market liquidity shock, while ensuring sufficient liquidity is also available after the extreme stressed scenario to continue to support day-to-day operations.

C.4.2. Risk mitigation

CIL manages liquidity risk by setting up a liquidity risk framework, that measures excess liquidity over five horizons and in stressed scenarios and puts a limit that ensures excess liquidity is positive under all horizons and scenarios considered.

C.4.3. Measures used to assess risk

The measure employed to assess liquidity risk is Excess Liquidity, defined as Available Liquidity less Required Liquidity and should remain positive for over the projected period defined within the Liquidity risk framework for both the normalised and stressed scenarios.

C.4.4. Expected profit included in future premiums

Expected Gross Profit included in Future Premiums ("EPIFP") is the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. EPIFP is presented in QRT S.23.01 'Own Funds' within Appendix B.

The Company's EPIFP was $197.6 million.

C.4.5. Risk concentration

There are no Liquidity Risk concentrations identified as at year ended 2020.

C.4.6. Material changes over the reporting period

In December 2020, Convex Group raised $1bn in equity capital and gained access to $500m in preference shares of which $100m has been drawn. Of this, $337m was down-streamed to CIL via CRL, which resulted in a material increase in the size of investment portfolio and in available liquidity.

The increase in available liquidity was partly offset by an increase in encumbered assets mainly due to the funding of Letters of Credit in place for 2021.

C.5. Operational risk

C.5.1. Risk description

Operational Risk is defined as the risk of greater than expected losses due to the failure of internal processes, people or systems, or from external events.

In order to facilitate the identification and management of operational risk, CIL breaks down operational risk into the following sub-categories:

People
This risk includes the uncertainty in relation to:

- shortfalls in skills, training and competency of employees and contractors;
- shortfalls in recruiting, retaining and ensuring appropriate headcounts are in place across the business and in each of its operating entities; and
- deliberate or unintentional actions, including fraud by employees, contractors or third parties which lead to operational disruptions or detriments.

Process and Systems
This risk includes the uncertainty of the occurrence of errors and omissions arising within any of the operational functions within CIL such as: Underwriting (Re)Insurance, Ceded Reinsurance, Portfolio Optimisation, Claims, Exposure Management, Reserving, Finance, Investment, Human Resources, IT Services, Facilities Management, Legal and CIL's outsourced arrangements.

This risk also includes all uncertainties related to ensuring the continued availability and effective functioning of Convex Group information technology infrastructure and encompasses information security, the network, software, hardware, communications, and internal and external data interfaces.

Data
This risk includes all uncertainties related to maintaining the quality of data used within CIL's daily operations and encompasses: External data, internal data input, data loss and data corruption.

Project & Change Management
This risk includes the uncertainty of the occurrence of issues and incidents that could delay successful and timely delivery of projects and change initiatives in accordance with agreed plans.

Financial Misstatement
This risk focuses upon the uncertainty of the possibility unintentional or deliberate misstatement of financial results or financial regulatory reporting.

Business Interruption
This risk focuses on the uncertainty that external and internal events could occur at any time in the future that cause normal business operations to be halted or disrupted.

Outsourcing & Third-Party Service Provider
This risk includes the uncertainty of unintentional or deliberate failures of service providers to deliver services in accordance with pre-agreed service standard contracts or engaging with service providers with no service standards in place.

C.5.2. Risk mitigation

A wide programme of controls exists to mitigate against operational risk. These controls are rated according to their effectiveness and are stored within the RisKonnect system. Controls are reviewed periodically and analysed to ensure that the risk is being mitigated as expected.

C.5.3. Measures used to assess risk

Operational Risk is assessed via the risk framework, with each risk being assigned an inherent impact, reflecting the level of risk in the absence of functional controls. Risks are then given an equivalent residual impact to reflect the level of risk with the current controls in place. Risks are also given a rating on a RAYG basis, which indicates how comfortable the business is with the level of risk.

C.5.4. Risk concentration

Other than the analysis of risk incident data, there are no formal procedures relating to the measurement of operational risk concentration at present within the CIL Risk Framework.

Risk incident data is analysed for trends or concentrations with regards to root causes, departments, risk owners and other such categories. It is expected that further analysis may be carried out as the risk framework is embedded further within the business.

C.5.5. Material changes over the reporting period

Operational risk has continued to grow throughout 2020, as the operational element of the company has grown substantially.
The key developments in operational risk have been:

- Headcount has significantly increased in 2020
- Continued systems and infrastructure development to support underwriting

COVID-19
The operational risk associated with COVID-19 has proven to be significant, though this has been mitigated well by CIL's agile technology approach, and no material direct losses have been sustained on an operational basis. There has been the potential for employees to be exposed to the virus, and despite a relatively low mortality rate, with many people catching the virus there remains the possibility of multiple employees becoming ill or severely ill, which may affect CIL negatively for as long as the pandemic continues. To mitigate this risk, CIL continues to strictly follow the UK government advice as it did throughout 2020, and its personnel have been asked to work from home and are conducting business via their company laptops and phones remotely.

In addition, CIL has worked closely with its main outsourcer, WNS, and WNS employees have been equipped to work from home to ensure continuity in CIL's operations since 23 March 2020 following the Indian Government's announcement.

The COVID-19 Planning Working Group and the People Team have ensured that there continues to be a number of initiatives to ensure the wellbeing of CIL staff, and to mitigate the impacts of social-distancing and isolation. Wellbeing of CIL staff in this unfamiliar and difficult context remains a priority.

C.6. Other material risks

C.6.1. Description of other material risks

Strategic Risk

There is a degree of strategic risk inherent in the plans of CIL. The aim of the company is to become a scale player in the P&C market, and the timeframe for completing this goal is, market conditions permitting, relatively quick. A lot, therefore, relies on the strategy of the business and the understanding of the insurance market environment in the UK and other risk locations.

Group Risk

CIL has a degree of group risk associated with it, as it is a subsidiary company of Convex Group. This is, however, a very simple Group structure at present composed of a parent company and two underwriting entities. Whilst this does not mean that there is no risk, it is limited compared to more complex structures. This is, however, envisaged to increase in coming years with the addition of additional group entities and branches, and the Risk function will ensure that this risk is reviewed and managed appropriately.

Regulatory and Legal Risk

There is a risk that CIL fails to comply with regulations and laws within jurisdictions in which it operates. This risk is managed primarily by the Compliance function and the Legal function, which report to the Chief Compliance Officer and General Counsel respectively. Key regulatory and legal risks are noted within the CIL Risk Register as operational risks.

C.6.2. Risk mitigation

Strategic Risk

Strategic risk is mitigated in part by the expertise of a wide array of industry veterans within the company, and on the Board, who continually review the strategy being enacted, whilst being aware of current market developments. In this phase of business growth it is essential to remain agile and able to react positively to latest developments.

Additionally, the business planning process has robust controls, setting out the plan against a variety of different market backdrops, and thereby indicating a range of differing outcomes on a multi-year basis.

Group Risk

Group risk is mitigated largely by ensuring that all parts of the group are aware of the strategy and priorities of the others, and from maintaining multiple functions and teams at a group level. This allows CIL to work in lockstep with the other companies in Convex Group.

Regulatory and Legal Risk

The Compliance and Legal teams have progressed development and embedding of a suitable control framework in 2020, including around the key areas of regulatory and legal risk, including licensing, sanctions, wordings and conduct risk.

C.6.3. Measures used to assess risk

None of these additional risks are measured quantitatively at present, although during 2021 there will be a full review of Key Risk Indicators, which will cover this area as well as others.

C.6.4. Material changes over the reporting period

As with other risks, the material changes were the ones associated with the growth of the company and continuing to embed a fully operational insurer of scale whilst predominately working from home in 2020 and into 2021.

C.7. Any other information

C.7.1. Stress testing and sensitivity analysis

Stress testing and sensitivity analysis is an important part of the business planning process, and of the testing performed by the Risk team to ensure that CIL remains prepared for potential deviations from expectations. This includes performing scenario analyses which test both the asset and liability sides of the balance sheet.

A key piece of stress and scenario work in the business planning activity during 2020 was the creation of four scenarios as part of the business plan activity. The scenarios were created based on flexing the performance of long tailed and short tailed markets in each direction, building on the work of the detailed, ground-up planning process.

Stress tests were also carried out on specific perils or plausible scenarios, such as an insurance market downturn, severe US windstorm events, or a major US quake.

In none of the scenarios, all detailed within the 2021 ORSA Report, was solvency impacted in a meaningful way.

In addition to this there were further stress and sensitivity tests in both positive and negative directions performed at a Group level, including reducing project costs or improving investment returns. These did not necessarily affect the SCR, but considered different potential paths for CIL.

Further, to ensure CIL can absorb possible financial shocks without breaching its Solvency II ratio, we measure and monitor the sensitivities of the Solvency II ratio to financial shocks (both on the asset and liability sides of the balance sheet) on corporate bond spreads, on interest rates, and increased defaults as shown in the table below:

Sensitivity	Impact on eligible Own Funds ($k)	Available Own Funds after stress ($k)
+100bps interest rates	(10,501)	968,872
-100bps interest rates	10,501	968,893
+100bps corporate spreads	7,884	968,891

These financial shocks can be seen to have limited impact on the available Own Funds and will not have an effect on solvency.

C.7.2. Exposure arising from off-balance sheet positions and/ or special purpose vehicles (“SPV”)

This currently does not apply to CIL.

C.7.3. Other material information regarding the risk profile of the business

There is no other material information relating to the risk profile of the business.

D. Valuation for solvency purposes

The 'Valuation for solvency purposes' section of this report provides a description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset and liability class.

The Company's UK GAAP balance sheet is presented in column (b) of Table D.1 below, in accordance with the classification of assets and liabilities used in its financial statements. The references given in column (a) are to relevant accounting policies and notes provided in the financial statements.

A number of reclassifications, required to align CIL's UK GAAP balance sheet as shown in its financial statements, to the classifications required for the prescribed format of the Solvency II balance sheet QRT, are given in column (c). The most significant reclassifications are:

- Under the Solvency II Regulations cash flows relating to reinsurance premiums are included within Reinsurance Recoverables, and cash flows relating to premiums and policyholder tax are included within Technical Provisions. In the UK GAAP balance sheet these amounts are included within reinsurance payables, insurance and intermediaries' receivables and other liabilities respectively.
- Investments, including cash equivalents, are reclassified under Solvency II. They also include accrued investment income which is classified within prepayments and accrued income under UK GAAP.

CIL's assets and liabilities, as valued under UK GAAP and reclassified in line with Solvency II Regulations, are shown in column (d). CIL's Solvency II balance sheet is summarised in column (e) and detailed in the balance sheet QRT S.02.01 included in Appendix B.

Differences between the valuation of CIL's assets and liabilities under Solvency II and UK GAAP are presented in column (f). Where the valuation of assets and liabilities is the same under UK GAAP and Solvency II, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of CIL's financial statements. If the valuation is materially different, a description of the bases, methods and main assumptions used under Solvency II is given in Sections D.1, D.2.1 and D.3 below. Where alternative methods of valuation have been used these are detailed in Section D.4.

Assets and other liabilities have been valued, according to the requirements of the Solvency II Regulations, at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. The value of other liabilities is not adjusted to take account of the impact of changes in own credit standing of CIL.

CIL applied the following hierarchy of valuation approaches:

1) Quoted market prices in active markets for the same assets or liabilities.
2) Quoted market prices in active markets for similar assets and liabilities (with adjustments to reflect differences where necessary).
3) Alternative methods of valuation.

CIL considers markets to be active where transactions take place with sufficient frequency and volume for pricing information to be available on an on-going basis. Where CIL has concluded that markets are not active, alternative methods for valuation are used.

Table D.1 – UK GAAP & Solvency II

As at 31 December 2020 ($000s)	Note in Financial Statements (a)	UK GAAP balance sheet classified according to financial statements (b)	Reclassification of UK GAAP balance sheet categories (c)	Reclassified balance sheet (d)=(b)+(c)	SII balance sheet (e)	Valuation differences between SII & UK GAAP (f)=(d)-(e)
Deferred acquisition costs	3, 17	60,861		60,861		60,861
Prepayments and accrued income		2,905	(2,905)	–		–
Deferred tax assets	8c	–		–		–
Financial investments				–		–
Listed debt securities	1k, 9, 10	963,424	(963,424)	–		–
Participation in investment pools	10	2,759	(2,759)	–		–
Government bonds			603,630	603,630	603,630	–
Corporate bonds			319,973	319,973	319,973	–
Collateralised securities			42,431	42,431	42,431	–
Collective investment undertakings			2,759	2,759	2,759	–
Deposits other than cash equivalents			92,655	92,655	92,655	–
Reinsurance recoverables	3	470,866		470,866	(43,162)	514,028
Receivables				–		–
Insurance and intermediaries' receivables	1f, 11	381,734	(3,129)	378,605	67,004	311,601
Reinsurance receivables		20,995		20,995	20,995	–
Receivables (trade, not insurance)	12	975	105,519	106,494	106,494	–
Cash and cash equivalents	1k, 9, 10	141,625	(92,655)	48,970	48,970	–
Other assets	13	3,931	295	4,226	4,226	–
Assets		2,050,075	102,390	2,152,465	1,265,975	886,490
Technical provisions	3	(719,826)		(719,826)	(271,994)	(447,832)
Payables				–		–
Reinsurance payables		(367,968)		(367,968)	(1,915)	(366,053)
Insurance and intermediaries' payables		(2,750)	3,129	379	379	–
Payables (trade, not insurance)	15, 16	(15,580)	(96,951)	(112,531)	(112,531)	–
Other liabilities			(61,606)	(61,606)	(10,991)	(50,615)
Accruals and deferred income	17	(53,038)	53,038	–		–
Liabilities		(1,159,162)	(102,390)	(1,261,552)	(397,052)	(864,500)
Excess of assets over liabilities		**890,913**	**–**	**890,913**	**868,923**	**21,990**

D.1. Assets

Assets have been valued according to the requirements of the Solvency II Directive and related guidance, where the basis of the Solvency II valuation principle is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

A description of the basis of valuation under Solvency II along with valuation differences between the Solvency II bases and the UK GAAP financial statements, by asset class, is provided below. If the valuation method has been described in the financial statements or is an alternative method of valuation detailed in Section D.4, it has not been included in this section.

D.1.1. Deferred acquisition costs

Deferred acquisition costs are recognised under UK GAAP reporting and deferred to the extent they are expected to be recoverable out of future margins in revenues on those contracts. Under Solvency II these are not recognised and are therefore valued at $nil in the Solvency II balance sheet. The associated cash flows are included in the valuation of Solvency II Technical Provisions.

D.1.2. Deferred tax assets and liabilities

Deferred tax is determined on a non-discounted basis in accordance with International Accounting Standard (IAS) 12, principles on temporary differences between the economic value of assets or liabilities on the Solvency II balance sheet and their tax base. Deferred tax asset recognition for Solvency II purposes is subject to the more prudent requirements of PRA Supervisory Statement 2/14 compared to the principles of IAS 12 which govern recognition in the financial statements. The Company has decided not to recognise any deferred tax asset in line with UK GAAP and not to recognise any further deferred tax assets arising from the timing differences between UK GAAP and Solvency II.

D.1.3. Financial investments

On the GAAP balance sheet, financial assets are valued using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. 'Quoted in an active market' in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.
- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

Collective investment undertakings are carried at fair value using quoted unit prices, which is consistent with Solvency II guidance. The Solvency II valuation of deposits other than cash equivalents is in line with the UK GAAP treatment.

Table D.2 below analyses financial assets measured at fair value at 31 December 2020 and 2019, by the level in the fair value hierarchy into which the fair value measurements is categorised.

Table D.2 – Asset table with hierarchies

Financial Assets 2020	Level 1 $000s	Level 2 $000s	Level 3 $000s	Total $000s
Government Bonds	583,182	1,649	–	584,831
Corporate Bonds	23,206	304,047	–	327,253
Collateralised securities	–	51,693	–	51,693
Collective Investments Undertakings	–	–	–	–
Deposits other than cash equivalents	6,132	–	–	6,132
Cash and cash equivalents	135,493	5,015	–	140,508
Total financial assets at fair value	**748,013**	**362,404**	**–**	**1,110,417**

Financial Assets 2019	Level 1 $000s	Level 2 $000s	Level 3 $000s	Total $000s
Government Bonds	125,777	1,641		127,418
Corporate Bonds		129,932		129,932
Collateralised securities		35,355		35,355
Collective Investments Undertakings	8,690			8,690
Deposits other than cash equivalents	77			77
Cash and cash equivalents	5,025			5,025
Total financial assets at fair value	**139,569**	**166,928**	**–**	**306,497**

The Solvency II valuation of financial assets is consistent with the GAAP valuation, except for accrued interest which is reclassified from other assets into financial assets.

COVID-19

An analysis of investment exposures was conducted for CIL. The effects of COVID-19 on the projected performance and credit exposures for CIL are not significant from a Going Concern perspective.

- 2020 performance: The 2020 CIL investment return was 2.6%, of which 1.2% related to price gains, driven by the significant fall in risk-free yields in the first quarter. Whilst credit spread widening impacted mark to market returns in the first quarter, spreads subsequently recovered over the balance of the year, back to within pre-COVID ranges.
- Credit exposures: In March 2020, the Investments team took action to selectively de-risk a portion of the credit portfolio and engaged with the external investment managers to conduct analysis across corporate credit holdings, to identify issuers whose credit quality may deteriorate, given the economic environment induced by COVID-19. This analysis resulted in a number of sales of corporate bond holdings in CIL (approx. $5m) of issuers in directly impacted sectors. These sales were conducted in early March before the full impact of the spread widening and resulted in realised gains from original purchase.

  The Investments team, alongside Financial Market Risk, have developed a framework to identify potential deteriorating credits and continue to engage closely with external managers on developments across focus issuers and sectors. This ongoing monitoring resulted in some further, selective sales of portfolio holdings over the balance of 2020.

  There were no defaults realised within the investment portfolio in 2020 and only one security downgraded to a rating below investment grade, an exposure that was subsequently sold as spreads retraced. To minimise the potential risks of an issuer defaulting, issuer concentration limits are set within the Financial Market Risk Framework and are scaled according to security type and credit rating level. Issuer concentration limits are also captured in the external investment manager IMAs to align to these limits, and the limits are monitored on a daily basis by both the Investments team and Financial Market Risk team.

Overall, the Investments team consider that the low spread duration and high credit quality of the investment portfolio enable it to withstand mark to market volatility with minimal to no capital impairment.

- Duration and ALM: The Financial Market Risk Framework provides a basis for measuring interest rate risk, relative to a liability-based benchmark. The portfolio is managed around this neutral benchmark duration, to reduce economic risk, with a current preference to remain slightly short in duration relative to the benchmark. This helps to limit mark to market volatility from movements in interest rates and provides a degree of capital protection in the event yields rise.

D.1.4. Reinsurance recoverables

Reinsurance recoverables are calculated as the probability-weighted average of discounted future cash flows relating to reinsurance contracts, adjusted for the expected losses due to counterparty default. Although established separately, reinsurance recoverables are valued on the same basis and using the same methodology and assumptions used to derive Technical Provisions – Best Estimate Liabilities, as described in Section D.2, subject to the following:

- Internal expenses are only allowed if they are recoverable under the reinsurance agreement;
- Where the timing of recoveries diverges from that for payments a separate projection is used;
- Allowance for risk of default depends on the credit rating and exposure to the reinsurance counterparty; and
- Reinsurance assets take into account reinsurance commissions.

Reinsurance recoverables, consistent with the calculation of Technical Provisions – Best Estimate Liabilities, include expected recoveries from pre-inception contracts where they occur within the premium or claims provisions.

Cash flows relating to future reinsurance arrangements comprise both expected recoveries and expected reinsurance premium payments. This means reinsurance contracts which are expected to be written are taken into account and thus assumptions in relation to the likely future reinsurance purchasing decisions are required.

The material differences between the Solvency II and UK GAAP valuation bases for reinsurance recoveries are as follows:

- Only reinsurance cash flows relating to long-tailed claims reserves are discounted under UK GAAP whereas all reinsurance cash flows are discounted under Solvency II.
- The unearned reinsurance premium reserve established under UK GAAP is replaced with a best estimate reinsurance premium provision under Solvency II. This is offset by the release of deferred reinsurance commissions from other liabilities (see Section D.3.2).
- The Solvency II valuation includes the additional reinsurance premium that is expected to be paid for reinsurance to cover business incepted at the valuation date. This is not accounted for under UK GAAP.

The Company does not have any Special Purpose Vehicles.

D.1.5. Insurance receivables

Amounts to be collected from intermediaries for premiums not yet due are recorded in the GAAP balance sheet as insurance receivables. Under Solvency II, this amount is reclassified into the technical provisions as it constitutes a future cashflow.

D.2. Technical provisions

Reinsurance recoverables and Technical Provisions from the Solvency II Balance Sheet shown in Table D.1 above are combined to present net technical provisions shown in the table below.

Table D.3 – Net technical provisions

Solvency II Value	2020 $000s	2019 $000s
Best estimate technical provisions (best estimate) – Non-life & health similar to non-life	233,865	(8,205)
Best estimate reinsurance recoverables	43,162	40,977
Technical provisions risk margin – Non-life & health similar to non-life	38,129	4,109
Net technical provisions	**315,156**	**36,881**

D.2.1. Methodology and assumptions used in valuing the technical provisions

Technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using risk-free discount rates. The risk margin is then added to reflect the uncertainty in the underlying cash flows. The risk margin is calculated by estimating the cost of the capital required to run off the business, discounted using the risk-free discount rates. The risk-free discount rates described here are prescribed by the PRA for each reporting period (note this is a change from previous years when this was provided by European Insurance and Occupational Pensions Authority ("EIOPA").

The best estimate technical provisions are calculated by using the UK GAAP reserves as the starting point. The following adjustments are then made:

- Removal of the prudence margin within the UK GAAP reserves;
- Removal of profit on the unearned premium within the UK GAAP reserve;
- Inclusion of provisions for legally obliged but as yet not incepted business;
- Future premiums (both payables and receivables);
- Allowance for operating expenses pertaining to the business in force;
- Inclusion of an allowance for the expected reinsurer defaults; and
- Discounting of future cashflows.

Table D.4 – Net technical provisions by Solvency II line of business.

Solvency II Value – 2020	Best estimate	Risk margin	Total $000s
Assistance and its proportional reinsurance	51	164	215
Miscellaneous financial loss insurance and proportional reinsurance	5,639	1,256	6,895
Marine, aviation and transport insurance and proportional reinsurance	61,623	13,207	74,830
Fire and other damage to property insurance and proportional reinsurance	59,133	7,457	66,590
General liability insurance and proportional reinsurance	66,290	6,025	72,315
Credit and Suretyship insurance and proportional reinsurance	(2,319)	787	(1,532)
Motor vehicle liability and proportional reinsurance	(159)	156	(3)
Non-proportional casualty reinsurance	6,609	1,342	7,951
Non-proportional marine, aviation and transport reinsurance	4,080	717	4,797
Non-proportional property reinsurance	76,079	7,019	83,098
Net technical provisions	**277,026**	**38,130**	**315,156**

Solvency II Value – 2019	Best estimate	Risk margin	Total $000s
Marine, aviation and transport insurance and proportional reinsurance	8,909	2,649	11,558
Fire and other damage to property insurance and proportional reinsurance	5,434	(69)	5,365
General liability insurance and proportional reinsurance	2,532	(28)	2,504
Non-proportional casualty reinsurance	405	7	412
Non-proportional marine, aviation and transport reinsurance	181	45	226
Non-proportional property reinsurance	15,311	1,505	16,816
Net technical provisions	**32,772**	**4,109**	**36,881**

Calculation of the best estimate technical provisions

CIL has been writing business since June 2019, and currently writes a diverse portfolio. The largest segments written to date are:

- Marine aviation and transport insurance and proportional reinsurance; predominantly covering airlines but with smaller components of aviation products, energy upstream property, marine and space business.
- Fire and other damage to property insurance and proportional reinsurance; written both direct and through delegated authorities on a worldwide basis but with a particular focus on the US. This also includes smaller amounts of bloodstock, construction, terrorism and energy downstream property business.
- Non-proportional property reinsurance; both catastrophe and per risk cover with worldwide coverage.
- General liability insurance and proportional reinsurance; covering general liability business worldwide, as well as smaller amounts of medical malpractice business.

Given its recent establishment, CIL has very limited claims history to date. Therefore, gross UK GAAP best estimate earned reserves have been estimated at a class of business level using market benchmark expectations of loss ratio and development patterns, including an allowance for Events Not in Data ("ENIDs"). This best estimate reserves are then uplifted to include a margin to reflect the uncertainty in the reserves.

- This margin is removed from the UK GAAP earned reserves to reach the best estimate reserve for inclusion in the technical provisions.
- The unearned premium included within the UK GAAP reserves is reduced for the expected profit on that unearned business using the same market expectations of loss ratio.
- Provision for legally obliged but as yet not incepted business is also included using the same market expectations of loss ratio, adjusted for rate change.

The reinsurance programme is then applied, including reinsurance contracts which are legally obliged but as yet not incepted. The recoveries assumed are consistent with those included in the UK GAAP earned reserves. Note that the full cost of the bound reinsurance programme is included within the technical provisions as CIL are legally obliged to this.

Additional provisions in respect of operating expenses, unallocated loss adjustment expenses ("ULAE") and an allowance for the expected reinsurer defaults are included within the best estimate provisions.

These provisions are then discounted using the prescribed risk-free discount rates.

Calculation of the risk margin

The risk margin is intended to cover the cost of transferring the insurance and reinsurance obligations of all business CIL has written or is legally obliged to write at the balance sheet date to another party, and immediately placing that business into run-off. This is calculated by applying the prescribed 6% cost of capital to the discounted value of the SCR necessary to support these obligations until they are fully run-off.

The SCR at the balance sheet date is calculated assuming no business is written in future and that the investment portfolio is reinvested in a risk-free way. This SCR is then run off over time as the insurance and reinsurance obligations are expected to run off. The discounted sum of the SCR at each future point in time is assumed to be the capital required to run off the business. The prescribed cost of capital is then applied to give the risk margin to include in the technical provisions.

Change in the technical provisions over the year

Table D.5 – Change in Net technical provisions during the year

Solvency II Value	2020 $000s	2019 $000s	Movement
Assistance and its proportional reinsurance	215	–	215
Miscellaneous financial loss insurance and proportional reinsurance	6,895	–	6,895
Marine, aviation and transport insurance and proportional reinsurance	74,830	11,558	63,272
Fire and other damage to property insurance and proportional reinsurance	66,590	5,365	61,225
General liability insurance and proportional reinsurance	72,315	2,504	69,811
Credit and Suretyship insurance and proportional reinsurance	(1,532)	–	(1,532)
Motor vehicle liability and proportional reinsurance	(3)	–	(3)
Non-proportional casualty reinsurance	7,951	412	7,539
Non-proportional marine, aviation and transport reinsurance	4,797	226	4,571
Non-proportional property reinsurance	83,098	16,816	66,282
Net technical provisions	**315,156**	**36,881**	**278,275**

The technical provisions have increased significantly during the year as a result of the growth in business written. There has been particular growth in the marine, aviation and transport, fire and other damage, and general liability direct and proportional classes, and the non-proportional property reinsurance class as this is where the majority of business to date has been written by CIL.

D.2.2. Key uncertainties

There is inherent uncertainty in the estimation of claims reserves, and it is possible that actual claims experience will differ significantly from the actuarial projections. This uncertainty stems from a variety of sources, such as:

- The impact of COVID-19, both in terms of claims on business written to date and the potential recessionary impacts of the pandemic on unearned business.
- Given the immaturity of the business written to date, the reserves are largely based on the initial expectation of loss ratios. The expectation of loss ratio selected is heavily dependent on expert judgement, and it is visible from the history of the market that performance in any individual year can vary significantly from expectations.
- Reliance on market benchmarks in order to set expectations of loss ratio for the business, as we are unable to rely on historical performance of CIL’s business given its immaturity.
- The hardening market and resulting uncertainty in the impact of this on profitability of business written, how this is captured in the benchmark loss ratios applied to estimate technical provisions, and whether CIL’s business can be expected to respond differently from the business underlying the benchmarks relied upon.
- CIL’s portfolio has grown rapidly and at this point is weighted towards business that is exposed to catastrophe claims, which have the potential to have a disproportionate impact on the performance of the portfolio.
- One of the growth areas of CIL’s portfolio is into long-tailed liability business. By its nature this business takes longer for claims to be notified and then settled, so there is increased uncertainty in the final settlement value of claims resulting from these classes of business.
- The final settlement value of claims will depend on events that have not yet occurred such as legislative changes and judicial decisions.

D.2.3. Explanation of material differences between Solvency II and financial statement basis

The following table summarises the bridge between UK GAAP reserves and Solvency II Technical Provisions, on gross of reinsurance, ceded reinsurance and net of reinsurance bases.

Table D.6 – Bridge between the UK GAAP reserves and Solvency II Technical Provisions

2020 $000s	Net of insurance
GAAP Reserves	**248,960**
Removal of Prudence Margin and other accounting adjustments	(2,247)
Removal of Profit on UPR	(52,311)
Include Future Premium	55,746
Include Profit on Unincepted Business	13,688
Include New Expenses Allowance	13,504
Apply Discounting Credit	(1,642)
Include Risk Margin	38,130
RI Bad Debt	1,328
Solvency II Provisions	**315,156**

The material differences between the Solvency II and UK GAAP valuation bases are summarised below:

- Removal of Prudence Margin and other accounting adjustments: An explicit margin for uncertainty is included within UK GAAP Provisions but removed under Solvency II. This reduces Solvency II Technical Provisions compared to UK GAAP Provisions. Additionally, small accounting adjustments are made.
- Removal of Profit on UPR: The unearned premium reserve established under UK GAAP is replaced with a Best Estimate premium provision which incorporates the expected cost of claims and expenses on the unearned periods of exposure.
- Future Premium: Premium receivables and payables form part of the Technical Provisions under Solvency II.
- Profit on Unincepted Business: Under Solvency II provisions are established for Legally Obliged Unincepted Business, whereas these provisions are not included within the UK GAAP valuation basis.
- New Expenses Allowance: Solvency II requires inclusion of expenses pertaining to the business in-force.
- Discounting Credit: Currently, claims reserves are not discounted within UK GAAP Provisions, whereas all cash flows are discounted under Solvency II.
- Risk Margin: This is calculated as the cost of capital of transferring the insurance obligations of the business at the balance sheet date to a third party, who immediately place that business in run-off.
- RI Bad Debt: A bad debt provision has been calculated based on the probability of default of CIL's reinsurers, using their credit ratings.

D.2.4. Recoverables from reinsurance contracts and SPVs (Special purpose vehicles)

Recoverables from reinsurance contracts are included within the best estimate of technical provisions (Table D.3.).

There are no recoverables expected from SPVs.

D.2.5. Transitional measures

No transitional measures have been applied.

D.3. Other liabilities

Other liabilities have been valued according to the requirements of the Solvency II Directive and related guidance. The basis of the Solvency II valuation principle is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

A description of the basis of valuation under Solvency II along with valuation differences between the Solvency II basis and the UK GAAP financial statements, by material class, is provided below. If the valuation method has been described in the financial statements or is an alternative method of valuation detailed in Section D.4, it has not been included in this section. CIL has no material contingent liabilities to recognise under Solvency II.

D.3.1. Payables and other financial liabilities

Amounts to be paid to reinsurers but not yet due are recorded in the GAAP balance sheet as reinsurance payables. Under Solvency II, this amount is reclassified into the technical provisions as it constitutes a future cashflow.

D.3.2. Accruals and deferred Income

Reinsurers' share of deferred acquisition costs of $6m, included within accruals and deferred income under UK GAAP, are not recognised and therefore valued at $nil in the Solvency II Balance Sheet. Material differences in the valuation of Technical Provisions are explained in Section D.2.3. There are no other material differences between the UK GAAP and Solvency II valuation bases.

D.3.3. Assumptions, judgements and uncertainty

No material assumptions or judgements were applied to, nor is any material uncertainty associated with, the recognition and valuation of other liabilities.

D.4. Alternative methods of valuation

CIL does not value any assets or liabilities using alternative methods of valuation as outlined in Articles 10(5) – (7) of the Solvency II Delegated Regulation.

D.5. Any other information

All material information relating to CIL's valuation for solvency purposes has been disclosed in Sections D.1 to D.4 of this document.

E. Capital management

This section of the report provides information on the Company's Own Funds and SCR and includes a description of the internal model.

E.1. Own Funds

E.1.1. Objectives, processes employed by CIL for managing its Own Funds

The primary objective of capital management is to manage the balance between return and risk, whilst maintaining economic capital in accordance with risk appetite. CIL's capital and risk management objectives are closely interlinked, and support the dividend policy, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests. In managing Own Funds, CIL seeks to, on a consistent basis:

- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to satisfy the requirements of regulators and other stakeholders;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital efficiently to remain within risk appetite and drive value adding growth. CIL uses a number of sensitivity tests to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital efficiently. Sensitivities to economic and operating experience are regularly produced on CIL's key financial performance metrics to inform decision making and planning processes over a five-year planning horizon, and as part of the framework for identifying and quantifying the risks to which CIL is exposed. There have been no material changes to the objectives, policies or processes with respect to the management of Own Funds during the year.

E.1.2. Structure, amount and quality of Own Funds at the end of the reporting period and analysis of changes over the reporting period

CIL's Own Funds comprise unrestricted Tier 1 capital which consists of its ordinary share capital and retained earnings. Retained earnings are not separately disclosed in Own Funds but are notionally included in the Reconciliation Reserve, which reconciles the total excess of assets over liabilities with identifiable capital investments included in Own Funds. Own Funds by tier are presented in QRT S.23.01.01 'Own Funds' within Appendix B. Table E.1 below sets out a summary of the Company's Own Funds by tier for the years ended 31 December 2019 and 2020:

Table E.1 – Own Funds

Basic Own Funds by Tier ($000) – 2020	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital	348,650			
Share premium account	600,150			
Reconciliation reserve	(79,877)			
An amount equal to net deferred tax assets				–
Total Basic Own Funds	**868,923**	**–**	**–**	**–**

Basic Own Funds by Tier ($000) – 2019	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital	311,800			
Reconciliation reserve	(41,603)			
An amount equal to net deferred tax assets				1,339
Total Basic Own Funds	**270,197**	**–**	**–**	**1,339**

Table E.2 below sets out a reconciliation of the total excess of assets over liabilities with identifiable capital investments included in Own Funds.

Table E.2 – Reconciliation Reserve

Reconciliation Reserve as at 31 December	2020 $000s	2019 $000s
Solvency II excess of assets over liabilities	868,923	271,536
Ordinary Share Capital	(348,650)	(311,800)
Share premium account	(600,150)	
Amounts equal to net deferred tax assets	–	(1,339)
Reconciliation Reserve	**(79,877)**	**(41,603)**

E.1.3. The eligible amount of Own Funds to cover the Solvency Capital Requirement, classified by tiers

Own Funds items are unrestricted Tier 1 and Tier 3 and therefore all available Own Funds are eligible to cover the SCR. The total Own Funds eligible to meet the SCR are set out in Table E.3.

Table E.3 – SCR

	2020 $000s	2019 $000s
Total eligible own funds to meet the SCR	868,923	271,536

E.1.4. The eligible amount of Own Funds to cover the Minimum Capital Requirement, classified by tiers

As Tier 3 Own Funds are not eligible to cover the MCR, the Own Funds to cover the MCR are restricted to Tier 1. The total Own Funds eligible to meet the MCR are set out in Table E.4.

Table E.4 – MCR

	2020 $000s	2019 $000s
Total eligible own funds to meet the MCR	868,923	270,197

E.1.5. Explanation of any material differences between equity as shown in CIL's financial statements and the EAL as calculated for solvency purposes

Differences between CIL's shareholders' equity per the financial statements and the Solvency II EAL per the Solvency II balance sheet relate to valuation differences as shown in Table E.5 and explained in Sections D.1 to D.3 this document.

Table E.5 – Reconciliation of Equity

	2020 $000s	2019 $000s
Shareholders' equity as shown in the financial statements	890,913	303,873
Solvency II valuation adjustment to assets (Note i)	(886,490)	(192,580)
Solvency II valuation adjustment to technical provisions (Note ii)	447,832	90,173
Solvency II valuation adjustment to other liabilities (Note iii)	416,668	70,070
Solvency II EAL	**868,923**	**217,536**

E.1.6. Own Fund items included under transitional arrangements under Solvency II

All Own Funds items are unrestricted Tier 1 Own Funds and no other items are included in Own Funds under transitional arrangements under Solvency II.

E.1.7. Ancillary Own Funds

CIL has not applied for PRA approval of any Ancillary Own Funds items and therefore no such items are included within Own Funds.

E.1.8. Own Funds restrictions

CIL does not have any ring-fenced funds and has not identified any other restrictions which need to be made to Own Funds as a result of availability or transferability of Own Funds within CIL.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement and Minimum Capital Requirement results

The SCR is the amount of Own Funds that CIL is required to hold under Solvency II. The SCR is calculated using the Standard Formula, which is a prescribed approach to calculating the SCR under Solvency II and is calibrated by EIOPA to ensure that all quantifiable risks are taken into account.

The MCR is the Own Fund threshold below which the PRA would intervene. This is calculated in a prescribed way as described in Section E.2.3.

The Standard Formula SCR and MCR under Solvency II at 31 December 2020 and 31 December 2019 are shown in Table E.6 below.

Table E.6 – SCR & MCR

Solvency II Value	2020 $000s	2019 $000s
Solvency Capital Requirement (SCR)	428,245	50,884
Minimum Capital Requirement (MCR)	107,061	12,721

The Standard Formula SCR process is owned by the Actuarial function, and includes inputs from the Finance, Underwriting, Ceded Reinsurance and Investment Functions, and other relevant stakeholders. The results are subject to various levels of review, including by Senior Management.

The company is not subject to any capital add-ons prescribed by the regulator.

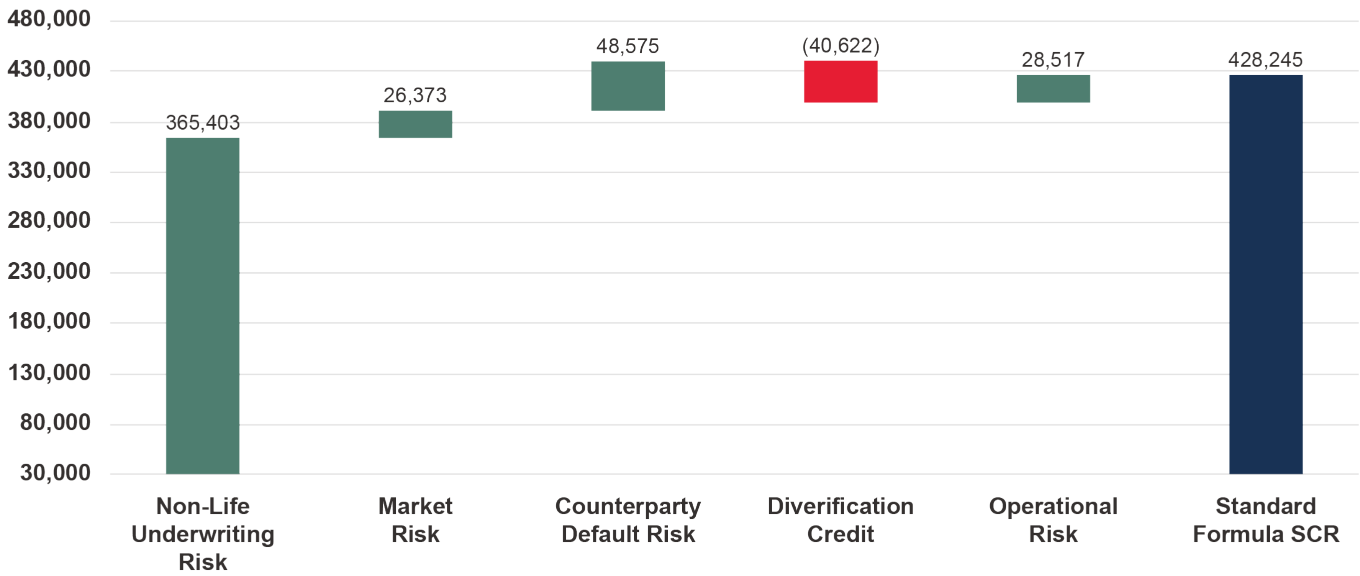
The company uses Finance and the Standard Formula SCR inputs to calculate the MCR.

E.2.2. Solvency Capital Requirement calculation

Overview

The Standard Formula SCR by risk module is set out in the graph below (figures in $000s).

Graph G.1



There has been no use of Undertaking Specific Parameters in the calculations.

SCR simplifications

There is one area in which a simplification is made in the calculation of the SCR, that is to assume that the risk mitigating effect of CIL's reinsurance in the 1-in-200 one-year event will split between reinsurers in proportion to the recoverables in the best estimate technical provisions, in accordance with Article 107 of the Delegated Acts. Given the significant portion of CIL's reinsurance is quota shares, and the vast majority of CIL's reinsurers have very strong credit ratings, this is considered a reasonable approximation.

Non-life Underwriting Risk

Non-life Underwriting Risk is the largest component of the SCR. Table E.7 below sets out the components of the Non-life Underwriting Risk charge.

Table E.7 – Diversified Non-life Underwriting Risk

Solvency II Value	2020 $000s	2019 $000s
Premium and reserve risk	121,059	31,369
Catastrophe risk	314,278	23,626
Lapse risk	32,709	9,299
Undiversified non-life underwriting risk	**468,046**	**64,294**
Diversification credit	(102,643)	(19,581)
Diversified non-life underwriting risk	**365,403**	**44,713**

The largest component of the Non-life Underwriting Risk charge is 'catastrophe risk' which reflects the risk of catastrophe events occurring that impact CIL's inwards business. CIL has written business across a variety of lines of business that are exposed to catastrophe events. The reinsurance program purchased by CIL acts to significantly mitigate the impact of this on the overall capital requirement.

The other significant component of the Non-life Underwriting Risk charge is 'Premium and Reserve Risk', which reflects the risks that:

- The premium charged for the business expected to be earned throughout the next year will not be sufficient to pay claims on that business; and
- The risk that the technical provisions are insufficient to pay the claims to which they pertain.

Finally, there is a Lapse Risk charge to allow for the loss of profits should some of the currently bound policies lapse.

Market Risk
Market Risk forms a smaller component of the SCR. Table E.8 below shows the components of the market risk charge.

Table E.8 – Diversified Market Risk

Solvency II Value	2020 $000s	2019 $000s
Interest rate risk	3,186	4,461
Spread risk	22,994	4,392
Currency risk	7,580	1,843
Concentration risk	–	1,041
Property risk	–	–
Equity risk	–	–
Undiversified market risk	**33,760**	**11,737**
Diversification risk	(7,387)	(4,538)
Diversified market risk	**26,373**	**7,199**

CIL's asset portfolio (excluding cash) consists predominantly of bonds and collateralised securities, so the risks associated with holding these assets drive the risk charges here.

The largest charge is Spread Risk, reflecting the risk that the spread of the bonds, loans, and collateralised securities within CIL's asset portfolio will differ from expectations.

The next largest charge is Currency Risk, reflecting the risk exchange rates differ from expectations, resulting in a mismatch between assets and liabilities.

The Interest rate Risk charge reflects the risk that interest rates will differ from expectations, resulting in a mismatch in the present value of assets (bonds, and other assets exposed to interest rate fluctuations) and liabilities (net technical provision).

CIL does not hold more than the prescribed proportions (which vary by credit rating of that asset) of its assets in investments which are exposed to a single counterparty, nor does it hold any property or equities, therefore no risk charge is required for the remaining three modules of the Standard Formula.

Counterparty default risk
A breakdown of the Counterparty Default Risk charge is shown in Table E.9 below.

Table E.9 – Diversified Counterparty Default Risk

Solvency II Value	2020 $000s	2019 $000s
Type 1 counterparty default risk	17,889	5,127
Type 2 counterparty default risk	33,695	499
Undiversified counterparty default risk	**51,584**	**5,626**
Diversification credit	(3,009)	(115)
Diversified counterparty risk	**48,575**	**5,511**

The largest charge is in respect of the risk of default by over-due balance sheet debtors, shown as Type 2 in the table.

There is also a charge in respect of the risk of default by banks in which cash is held and recoverables from CIL's reinsurers, shown as Type 1 in the above table.

Operational Risk
Operational Risk is calculated using a prescribed formula applied to either:

- Premium earned in the previous 12 months and premium earned in the 12 months prior to the previous 12 months; and
- Gross best estimate technical provisions with a floor of 0.

The Operational risk is then selected as the largest of the premium calculation and the technical provisions calculation, subject to a cap of 30% of the SCR excluding operational risk.

Table E.10 below shows each of the potential operational risk charges and so resulting risk charge used in the SCR.

Table E.10 – Operational Risk

Solvency II Value	2020 $000s	2019 $000s
Gross premiums earned in the previous 12 months	484,202	13,295
Gross premiums earned in 12 months prior to the previous 12 months	14,873	–
Operational risk – premium calculation	28,517	798
Gross technical provisions	233,865	(8,205)
Operational risk – technical provisions calculation	7,016	–
Calculated operational risk	***28,517***	***798***
Cap – 3% SCR	119,918	1,503
Operational risk	***28,517***	***798***

E.2.3. Minimum Capital Requirement calculation
The Combined MCR is calculated by applying prescribed factors to the net of reinsurance technical provisions and premium written in the previous year, with a floor of 25% of the SCR and a cap of 45% of the SCR.

The MCR is then the larger of this Combined MCR or the Absolute Floor of the MCR prescribed by EIOPA.

The table below shows each of these potential MCR figures and so the resulting MCR.

Table E.11 – Minimum Capital Requirement

Solvency II Value	2020 $000s	2019 $000s
Linear MCR	84,248	5,409
Floor – 25% SCR	107,061	12,721
Cap – 45% SCR	192,710	22,898
Absolute Floor of the MCR	2,925	4,127
Minimum Capital Requirement	**107,061**	**12,721**

As at both 31 December 2019 and 31 December 2020, the MCR has been calculated as 25% of the SCR.

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

CIL is not using the duration-based equity risk sub-module as it is not applicable.

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

This section is not applicable as CIL does not use an approved internal model.

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

During the reporting period, there were no instances of non-compliance with either of the Solvency II MCR or SCR. Over this period, CIL held Own Funds in excess of the SCR at all times.

E.6. Any other information

All material information relating to CIL's capital management has been disclosed in sub-sections E.1 to E.5 above. All amounts in the Solvency and Financial Condition Report, unless otherwise stated, are shown in United States Dollars rounded to the nearest thousand. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Appendix A: Glossary of terms

Abbreviation	Details of abbreviations
ABS	Asset Backed Securities
ALM	Asset Liability Management
AMRL	Aggregate Market Risk Limit
CIL	Convex Insurance UK Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRA	Chief Risk Actuary
CRO	Chief Risk Officer
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EAL	Excess of assets over liabilities
EU	European Union
FCA	Financial Conduct Authority
GAAP	Generally Accepted Accounting Principles
GEC	Group Executive Committee
GBP	British Pound Sterling
GPW	Gross Premiums Written
HR	Human Resources
IMA	Investment Management Agreement
IMMMR	Identify, Measure, Manage, Monitor and Report
MCR	Minimum Capital Requirement
NAIC	National Association of Insurance Commissioners
ORSA	Own Risk and Solvency Assessment
P&C	Property & Casualty
PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Templates
RAG	Red, Amber, Green
RAYG	Red, Amber, Yellow and Green
RBLE	Risk-bearing Legal Entity
RMF	Risk Management Framework
RMBS	Residential Mortgage-Backed Securities

Abbreviation	Details of abbreviations
SCR	Solvency Capital Requirement
SM&CR	Senior Managers & Certification Regime
SMF	Senior Management Function
SYSC	Senior Management Arrangement Systems and Controls
The Company	Convex Insurance UK Limited
The Group	Convex Group Limited
UKEC	UK Executive Committee
ULAE	Unallocated loss adjustment expenses
WNS	WNS Global Services (UK) International Limited

Appendix B: QRTs

This Appendix contains the following templates which the company is required to disclose as part of the SFCR as set out in Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 (Procedures, Formats and Templates of the Solvency and Financial Condition Report in accordance with Directive 2009/138/EC).

The QRT's in this report are presented in US dollars rounded to the nearest thousand. Rounding differences of +/- one unit can occur. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,061,448
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	966,034
R0140	*Government Bonds*	603,630
R0150	*Corporate Bonds*	319,973
R0160	*Structured notes*	0
R0170	*Collateralised securities*	42,431
R0180	*Collective Investments Undertakings*	2,759
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	92,655
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:	-43,162
R0280	*Non-life and health similar to non-life*	-43,162
R0290	*Non-life excluding health*	-43,162
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	67,004
R0370	Reinsurance receivables	20,995
R0380	Receivables (trade, not insurance)	106,494
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	48,970
R0420	Any other assets, not elsewhere shown	4,226
R0500	**Total assets**	1,265,975

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	271,994
R0520	*Technical provisions - non-life (excluding health)*	271,994
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	233,865
R0550	*Risk margin*	38,130
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
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	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	-379
R0830	Reinsurance payables	1,915
R0840	Payables (trade, not insurance)	112,532
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	10,991
R0900	**Total liabilities**	397,052
R1000	**Excess of assets over liabilities**	868,923

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		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				0		149,336	137,133	100,667	3,289		3,034	25,982					419,441
R0120	Gross - Proportional reinsurance accepted				2,043		143,939	68,165	15,977	17		1,328	206					231,675
R0130	Gross - Non-proportional reinsurance accepted														21,842	16,905	141,785	180,532
R0140	Reinsurers' share				1,097		203,856	138,592	81,626	1,922		2,762	20,920		11,588	9,754	90,295	562,412
R0200	Net				946		89,418	66,705	35,018	1,384		1,599	5,269		10,253	7,151	51,491	269,236
	Premiums earned																	
R0210	Gross - Direct Business				0		88,980	71,237	44,753	122		1,519	5,230					211,840
R0220	Gross - Proportional reinsurance accepted				804		89,839	34,226	8,947	4		238	28					134,085
R0230	Gross - Non-proportional reinsurance accepted														15,013	13,366	109,898	138,277
R0240	Reinsurers' share				430		127,503	85,275	37,761	192		1,362	4,294		8,808	7,841	74,277	347,745
R0300	Net				374		51,315	20,187	15,938	-65		394	963		6,204	5,525	35,622	136,457
	Claims incurred																	
R0310	Gross - Direct Business				0		59,042	33,188	37,829	83		993	3,771					134,906
R0320	Gross - Proportional reinsurance accepted				521		55,339	18,346	7,487	1		187	20					81,902
R0330	Gross - Non-proportional reinsurance accepted														12,028	6,634	78,628	97,291
R0340	Reinsurers' share				286		77,441	32,741	31,564	47		652	2,920		7,068	3,861	44,680	201,260
R0400	Net				235		36,940	18,792	13,752	37		529	871		4,961	2,773	33,948	112,838
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net				0		0	0	0	0		0	0		0	0	0	0
R0550	**Expenses incurred**				310		31,645	16,677	10,893	-9		553	433		3,923	3,199	26,692	94,317
R1200	**Other expenses**																	
R1300	**Total expenses**																	94,317

S.05.02.01

Premiums, claims and expenses by country

Non-life

		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			US	BM	FR	RU	JP	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	293,035	95,947	1,866	729	134	0	391,710
R0120	Gross - Proportional reinsurance accepted	24,909	40,899	28,064	8,918	9,254	6,365	118,410
R0130	Gross - Non-proportional reinsurance accepted	17,954	134,314	8,837	462	0	2,950	164,517
R0140	Reinsurers' share	232,305	179,010	25,986	6,957	6,544	5,905	456,707
R0200	Net	103,593	92,150	12,781	3,153	2,844	3,410	217,930
	Premiums earned							
R0210	Gross - Direct Business	144,833	51,451	801	579	73	0	197,738
R0220	Gross - Proportional reinsurance accepted	13,277	21,299	15,976	1,161	9,643	3,662	65,018
R0230	Gross - Non-proportional reinsurance accepted	16,064	100,006	6,185	417	0	2,259	124,931
R0240	Reinsurers' share	122,796	127,292	16,181	1,441	7,288	3,854	278,851
R0300	Net	51,378	45,464	6,781	717	2,428	2,068	108,836
	Claims incurred							
R0310	Gross - Direct Business	104,472	28,065	276	156	4	0	132,973
R0320	Gross - Proportional reinsurance accepted	7,223	10,344	8,824	310	5,642	3,788	36,131
R0330	Gross - Non-proportional reinsurance accepted	9,467	74,742	2,907	436	0	2,247	89,798
R0340	Reinsurers' share	81,902	67,939	7,770	553	4,012	3,562	165,739
R0400	Net	39,259	45,211	4,236	349	1,634	2,474	93,164
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	33,867	36,030	4,583	507	2,058	1,588	78,632
R1200	**Other expenses**							
R1300	**Total expenses**							78,632

S.17.01.02

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	0	0	0		0	0		0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross				19		17,919	26,001	34,873	-1,369		70	3,394		2,275	-2,168	2,358	83,372
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				208		-6,342	-5,733	171	960		-83	-952		939	-957	-26,414	-38,203
R0150	**Net Best Estimate of Premium Provisions**				-188		24,261	31,735	34,702	-2,329		153	4,345		1,336	-1,211	28,771	121,575
	Claims provisions																	
R0160	Gross				114		48,805	13,686	32,876	24		-4	937		7,158	3,125	43,770	150,493
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				85		11,443	-13,712	1,289	14		98	-357		1,886	-2,167	-3,537	-4,958
R0250	**Net Best Estimate of Claims Provisions**				29		37,362	27,398	31,587	11		-102	1,294		5,272	5,291	47,307	155,451
R0260	**Total best estimate - gross**				134		66,724	39,687	67,749	-1,345		66	4,331		9,434	956	46,128	233,865
R0270	**Total best estimate - net**				-159		61,623	59,133	66,289	-2,319		51	5,639		6,608	4,080	76,079	277,026
R0280	**Risk margin**				156		13,207	7,457	6,025	787		164	1,256		1,342	717	7,018	38,130
	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**				290		79,931	47,145	73,775	-558		230	5,587		10,776	1,673	53,146	271,994
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				293		5,101	-19,446	1,460	974		15	-1,309		2,825	-3,124	-29,951	-43,162
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				-3		74,830	66,590	72,315	-1,532		215	6,895		7,951	4,797	83,097	315,156

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 **Accident year / underwriting year** Underwriting 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	2011	0	0	0	0	0	0	0	0	0	0		0	0
R0170	2012	0	0	0	0	0	0	0	0	0			0	0
R0180	2013	0	0	0	0	0	0	0	0				0	0
R0190	2014	0	0	0	0	0	0	0					0	0
R0200	2015	0	0	0	0	0	0						0	0
R0210	2016	0	0	0	0	0							0	0
R0220	2017	0	0	0	0								0	0
R0230	2018	0	0	0									0	0
R0240	2019	126	12,244										12,244	12,371
R0250	2020	29,802											29,802	29,802
R0260												**Total**	42,046	42,173

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	2011	0	0	0	0	0	0	0	0	0	0		0
R0170	2012	0	0	0	0	0	0	0	0	0			0
R0180	2013	0	0	0	0	0	0	0	0				0
R0190	2014	0	0	0	0	0	0	0					0
R0200	2015	0	0	0	0	0	0						0
R0210	2016	0	0	0	0	0							0
R0220	2017	0	0	0	0								0
R0230	2018	0	0	0									0
R0240	2019	-2,370	34,284										31,618
R0250	2020	118,141											116,414
R0260												**Total**	148,032

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	348,650	348,650		0	
R0030	Share premium account related to ordinary share capital	600,150	600,150		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	-79,877	-79,877			
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**	868,923	868,923	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	868,923	868,923	0	0	0
R0510	Total available own funds to meet the MCR	868,923	868,923	0	0	
R0540	Total eligible own funds to meet the SCR	868,923	868,923	0	0	0
R0550	Total eligible own funds to meet the MCR	868,923	868,923	0	0	
R0580	**SCR**	428,245				
R0600	**MCR**	107,061				
R0620	**Ratio of Eligible own funds to SCR**	202.90%				
R0640	**Ratio of Eligible own funds to MCR**	811.61%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	868,923
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	948,800
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-79,877
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	197,558
R0790	**Total Expected profits included in future premiums (EPIFP)**	197,558

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	26,373		
R0020	Counterparty default risk	48,575		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	365,403		
R0060	Diversification	-40,622		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	399,728		

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	28,517
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**	428,245
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	428,245
	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	84,248

		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	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	627
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	61,623	142,711
R0080	Fire and other damage to property insurance and proportional reinsurance	59,133	92,046
R0090	General liability insurance and proportional reinsurance	66,289	54,987
R0100	Credit and suretyship insurance and proportional reinsurance	0	254
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	51	1,213
R0130	Miscellaneous financial loss insurance and proportional reinsurance	5,639	9,867
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	6,608	11,899
R0160	Non-proportional marine, aviation and transport reinsurance	4,080	10,211
R0170	Non-proportional property reinsurance	76,079	58,621

	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	84,248
R0310	SCR	428,245
R0320	MCR cap	192,710
R0330	MCR floor	107,061
R0340	Combined MCR	107,061
R0350	Absolute floor of the MCR	2,925
R0400	**Minimum Capital Requirement**	107,061

Convex Insurance UK
52 Lime Street, London EC3M 7AF

convexin.com

21_04/SolvencyAndFinancialConditionReport2020