

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

# **BHSF GROUP LIMITED**

## **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

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**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

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**APPROVAL OF THE SOLVENCY AND FINANCIAL CONDITION REPORT**

The board of Directors of BHSF Group Limited has responsibility for the review and approval of the Solvency and Financial Condition Report.

We certify that the Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and the Solvency II Regulations.

We are satisfied that:

- throughout the reporting period, the Group has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable to us; and
- it is reasonable to believe that, at the date of publication of the Solvency and Financial Condition Report, the Group has continued to comply, and will continue to comply in future.

By order and approval by the BHSF Group Limited board of Directors.

Signed on behalf of the board by:

A handwritten signature in dark ink, appearing to read 'I. Galer', written over a light blue horizontal line.

Ian R Galer  
Group Chief Executive  
8 May 2018

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### SUMMARY

#### Introduction

BHSF welcomes the opportunity to be able to use this Solvency and Financial Condition Report (SFCR) to give its customers an insight into the structures, policies, and procedures that are in place to ensure a high quality service and the safeguarding of the assets of the business.

BHSF has been granted a waiver by the Prudential Regulation Authority (PRA) from producing a solo SFCR for BHSF Limited, the Group's only insurance company. This single Group report contains all of the information that would otherwise have been presented in that solo report.

#### Section A: Business and Performance

BHSF Group Limited is a not-for-profit holding company whose subsidiaries undertake four core strands of business:

- 1 Insurance in the form of health cash plans, personal accident and Plan4Life cancer cover offered by BHSF Limited, a not-for-profit company founded in 1873
- 2 Employee benefits products such as employee assistance programmes and flexible benefits platforms offered by BHSF Employee Benefits Limited, and
- 3 Occupational health services offered by BHSF Occupational Health Limited and BHSF Medical Practice Limited
- 4 Private medical services offered by BHSF Medical Practice Limited.

A summary of the results of each of the Group's divisions, as well as the results of the Group's investment activities during the year and other general expenditures are set out below.

	2018 £'000	2017 £'000
Insurance underwriting (deficit)/surplus	(1,231)	310
Net investment result	(528)	2,146
Occupational health and medical statutory loss before tax	(2,627)	(1,177)
Employee benefits statutory profit before tax	712	1,158
Administration costs of non-trading entities, including holding companies	(130)	(71)
Gift aid donations	(22)	(52)
Pension scheme costs	(499)	(53)
Consolidation adjustments*	(812)	(1,216)
<b>(Deficit)/Surplus on ordinary activities before taxation</b>	<b>(5,138)</b>	<b>1,045</b>

\* Consolidation adjustments primarily relate to intra-group commissions and management charges.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

##### **SUMMARY (continued)**

Underwriting performance decreased year-on-year by £1.5m, due in part to a record-breaking sales performance which increased commission payments, but also due to an increase in claims payments, with the claims ratio increasing from 69% in 2017 to 74% in 2018. In addition to this, further regulatory changes in the form of the General Data Protection Regulation (GDPR) and Senior Managers' and Certification Regime (SMCR) resulting in extra costs to the business.

Investment markets underwent periods of volatility during the year, due to global political and economic factors, and investment values finished the year down on the previous year-end. This resulted in unrealised losses of £1.2m and an overall investment loss of £0.5m, a stark contrast to the 2017 result of a £2.1m profit.

The occupational health division saw losses increase by £1.4m. Part of this is the result of increased goodwill amortisation charges which will reduce in subsequent years. It is also a reflection of increased investment in the sales team to generate further sales as well as the decision to invest in training qualified doctors and nurses to convert to occupational health in order to make our mark on the future of occupational health provision in the UK.

Section A of this report gives further detailed information on the overall structure of BHSF Group and performance over the last 12 months.

##### **Section B: Overview of Governance Arrangements and Risk Management**

The Group Board comprises the executive directors and non-executive directors of BHSF Group Limited. In addition to the governance responsibilities of all directors, the executive directors are responsible for all aspects of the day-to-day business of BHSF and the non-executive directors are responsible for reviewing the performance of the executive in meeting agreed goals and objectives. The executive directors are led by the Group Chief Executive while the Chairman is responsible for the Board as a whole.

Under the overall leadership of the Chairman, the Group Board is ultimately responsible for good corporate governance across the Group.

Responsibilities in this regard include:

- (a) Establishing and promoting the culture, values and ethics of BHSF Group;
- (b) Ensuring that processes, mechanisms and structures are best matched to the business and its strategy;
- (c) Determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives;
- (d) Maintaining sound risk management, promoting a risk-aware culture, and maintaining internal control systems;
- (e) Maintaining an appropriate relationship with the company's auditors;
- (f) Establishing formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles should be applied;
- (g) Presenting a fair, balanced and understandable assessment of BHSF Group's position and prospects; and
- (h) Compliance with their Companies Act responsibilities.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

#### FOR THE YEAR ENDING 31 DECEMBER 2018

#### SUMMARY (continued)

In order to effectively carry out its responsibilities, the board delegates certain activities to individual directors, senior managers and the various committees of the board whilst acknowledging that it still retains its legal and regulatory responsibilities.

Individuals appointed to executive or non-executive director roles, as well as other key roles must meet BHSF's 'fit and proper' policy. This requires that they have appropriate qualifications, knowledge, experience, and ethical qualities to fulfil their roles in the best interests of the Group and its customers.

Remuneration of directors, senior managers, and other staff is structured so as to not reward any decision or behaviour, including sales techniques, which are inconsistent with the Group's ethical stance and regulatory requirements.

Sections B.1 and B.2 contain further detail on the overarching governance arrangements in place in the Group.

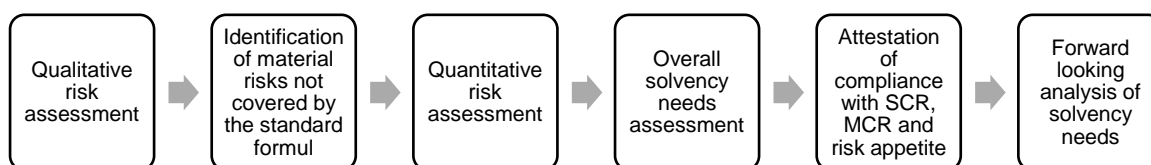
#### Risk Management

BHSF Group operates an Enterprise Risk Management Framework (ERMF) that facilitates the identification, assessment, and prioritisation of risks across all risk categories that are pertinent to BHSF Group, defined in a Group-wide Risk Universe. Further to this, a chosen suite of control actions, whether to minimise the likelihood and/or impact of the risks or to maximise their opportunity, are then deployed and monitored. Quarterly reporting filters up into a number of Executive and Non-Executive Committees.

The ERMF covers all of the risks that form part of the Group's solvency capital requirement (SCR) under the Solvency II standard formula, as well as additional risk categories not covered by the formula.

The board rates its preference for the handling of each risk based on its appetite for the particular risk. Ratings range from risk rejecting – not willing to accept any exposure to the risk – through to risk accepting – willing to take on more of a given risk.

Part of the Group's risk management activities is the completion of an own risk and solvency assessment (ORSA). The ORSA consists of the following activities:



Key outputs of these steps are used by the board in making strategic and other material decisions, such as the decision to launch a significant new product stream, or the decision to move significant funds between the various companies in the Group.

Further information on risk management can be found in sections B.3 and B.4 of this report.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

#### SUMMARY (continued)

##### Internal Control System

BHSF Group operates the 'three lines of defence' model for internal control:

<b>1st Line Business operations</b>	Involved in day-to-day management of risk Apply control activities and risk mitigations
<b>2nd Line Risk, compliance and actuarial</b>	Oversee and challenge first line's risk management Provide guidance and direction for risk-related matters Cascade changes in regulation and guide implementation Develop risk, internal control and governance frameworks and tools Escalate and provide risk and compliance reporting
<b>3rd Line Internal audit and external audit</b>	Provide independent, objective testing Review and provide verification of controls adequacy and efficiency for the management of risk Review and provide verification of the business compliance with external obligations

The roles and responsibilities of the second and third lines of defence which act as oversight of the business are set out in further detail in sections B.5 to B.8 of this report.

Overall, the Group considers that it has a system of governance that is suitably mature for an insurer of its size and nature. Nevertheless, the board is committed to continually enhancing its system of governance in the coming years.

#### Section C: Risk Profile

##### ***Underwriting risk***

BHSF Limited, a subsidiary of the Group, is exposed to underwriting risk on the insurance products it provides; namely health cash plans, personal accident cover, and Plan4Life cancer cover.

The following underwriting risks affect BHSF Limited:

- Premium and reserving risk – the risk that a reduction in premiums or a growth in claims result in losses to the business;
- Lapse risk – the risk that a large number of policy cancellations result in loss to the business; and
- Catastrophe risk – the risk that a single large-scale catastrophic event occurs which causes significant loss to the business.

Underwriting risk is partially offset by the use of reinsurance, and in protections built in to policy terms, such as the lack of scope for unlimited claims on any one policy.

##### ***Market risk***

BHSF Limited invests in a portfolio of market-traded assets, including equities, corporate and government bonds, and collective investment funds.



## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SUMMARY (continued)**

This means that the Group is exposed to market risk in the following categories:

- Concentration risk – the risk inherent from investing too much in a single company, asset class, industry, or geographical area;
- Interest rate risk – the risk that asset values fluctuate due to movements in base interest rates;
- Equity risk – the risk that asset values fluctuate due to movements in stock market prices;
- Property risk – the risk that asset values fluctuate due to movements in property prices;
- Spread risk – the risk that asset values fluctuate due to movements in the size of credit spreads attached to corporate debt; and
- Currency risk – the risk that asset values fluctuate due to movements in foreign exchange rates.

The Group manages these risks through the implementation of a strict investment policy, which binds our investment managers, UBS, to maintain a well-diversified and prudently managed portfolio. The Group Board's Investment Committee oversees the implementation of the investment policy and the management of the Group's investments in general.

#### ***Counterparty Default Risk (Credit Risk)***

BHSF Group is exposed to Credit Risk through the provision of its services, where it is required to manage relationships with a number of counterparties; these include but are not limited to Reinsurance, Investment, Banks, and Policyholders.

- Type One Counterparty Default – the risk of exposure to defaults of bank counterparties.
- Type Two Counterparty Default – the risk of exposure to defaults of insurance intermediaries, policyholder debtors, and reinsurers.

#### ***Liquidity risk***

All of the Group's main trading companies are exposed to liquidity risk – the risk that they find themselves unable to meet liabilities as they fall due. Each company within the Group manages its liquidity conservatively, aiming to hold a buffer in place so that liabilities would continue to be met even in the event of significant disruption to cash in flows. The size of each company's buffer is dependent on the specific trading conditions for that company.

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### SUMMARY (continued)

#### **Operational risk**

Operational risk is the risk stemming from inadequate, unfair or failed internal processes, people and systems or from external events. For BHSF operational risk includes: information technology systems risks; data risks; physical assets/facilities risks; financial crime risks; people risks; third party risks; process risks; and legal risks.

It should be noted that for the purposes of BHSF Group and its ERMF, Conduct Risk and Regulatory Risk are captured as two separate risk categories, outside of traditional Operational Risk. This is, in part, as a result of these categories being considered particularly important to the Group, but also as a result of potential exposure to both.

Operational risks are managed through the use of various policies, procedures, and controls, as well as the use of appropriate insurance cover and maintenance of backups and disaster recovery facilities.

#### **Pension scheme risk**

The Group is exposed to a fall in the value of its own funds resulting from fluctuations in the value of its defined benefit pension liability. The defined benefit scheme covers the pensions of some former and current employees. The risk presented has been partly mitigated through the closure of the scheme in 2012, but the liability is sensitive to market risks and the longevity of pensioners in the scheme.

Further information on risks, risk management, risk mitigation techniques, and the Group's stress testing methodologies can be found in section C.

### **Section D: Valuation for solvency purposes**

In a small number of areas, the Solvency II regulations differ from UK generally accepted accounting practice (UK GAAP) in so far as they affect the valuation of the Group's assets and liabilities. These are covered in detail in section D of this report.

The differences are summarised below:

	<b>Solvency II</b>	<b>UK GAAP</b>	<b>Difference</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Assets	33,370	34,746	(1,376)
Liabilities	(7,831)	(8,174)	343
<b>Excess of assets over liabilities</b>	<b>25,539</b>	<b>26,572</b>	<b>(1,033)</b>

Key differences are as follows:

- Solvency II treats goodwill and other intangible assets as having nil value
- Solvency II treats certain members of the Group as a single 'related undertakings' investment while the UK GAAP accounts include their various assets and liabilities in their appropriate balance sheet lines; and
- Solvency II's definitions of technical provisions differ from those in UK GAAP.

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**SUMMARY (continued)**

**Section E: Capital Management**

Section E of this report sets out the Group's solvency capital requirement (SCR), minimum capital requirement (MCR) and the level of own funds available to cover these requirements. The Group's own funds for Solvency II purposes comprise the £25,539k excess of assets over liabilities presented above. The Group SCR is £13,204k (2017: £13,163k) while the MCR is £3,246k (2017: £3,189k). The Group therefore remains extremely solvent, having own funds equal to 193% of the SCR and 766% of the MCR (2017: own funds equal to 209% of the SCR and 864% of the MCR).

# **BHSF GROUP LIMITED**

## **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

### **SECTION A: BUSINESS AND PERFORMANCE**

#### **A.1. BUSINESS DESCRIPTION**

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##### **A.1.1. NAME AND LEGAL FORM**

BHSF Group Limited was incorporated in England and Wales on 16 May 2003 by guarantee and without share capital, with company number 04767689. The company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

The registered office is Gamgee House, 2 Darnley Road, Birmingham, West Midlands B16 8TE.

##### **A.1.2. SUPERVISORY AUTHORITY**

**Prudential Regulation Authority (PRA)** regulates BHSF Group and its subsidiaries on prudential matters. The head office of the PRA is located at 20 Moorgate, London, EC2R 6DA.

**Financial Conduct Authority (FCA)** regulates BHSF Group and its subsidiaries on financial conduct matters. The head office of the FCA is located at 25 The North Colonnade, London, E14 5HS.

**Care Quality Commission (CQC)** regulates BHSF Medical Practice Limited, a subsidiary of BHSF Group's occupational health division. The head office of the CQC is located at 151 Buckingham Palace Road, London, SW1W 9SZ.

##### **A.1.3. EXTERNAL AUDITOR**

The Group Board has appointed BDO LLP as the external auditor of BHSF Group Limited and all of the group's subsidiaries, including BHSF Limited – the group's only insurance undertaking.

The local office of the external auditors is located at 2 Snow Hill Queensway, Birmingham B4 6GA.

##### **A.1.4. GROUP STRUCTURE**

The BHSF Group comprises BHSF Group Limited and its subsidiaries: BHSF Limited; BHSF Management Services Limited; BHSF Employee Benefits Limited; BHSF Occupational Health Limited; BHSF Medical Practice Limited; and BHSF Corporate Healthcare (Holdings) Limited.

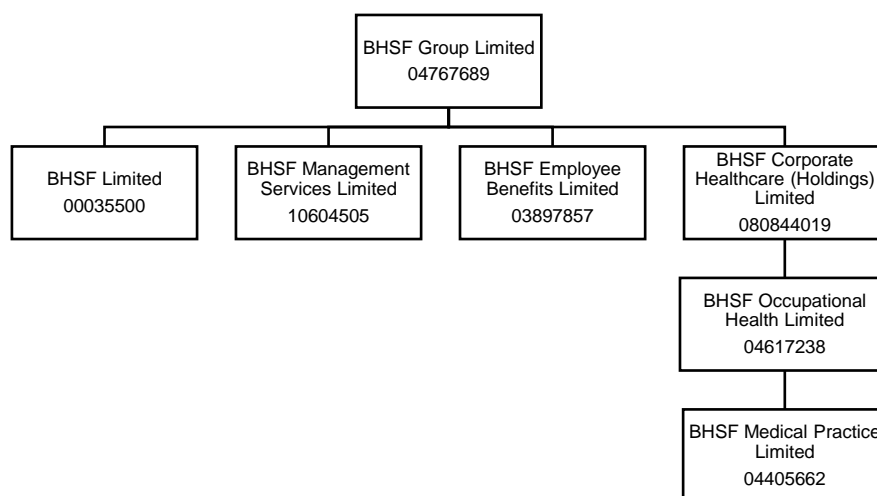
As at 31 December 2018 there was also a single non-trading entity within the group.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION A: BUSINESS AND PERFORMANCE (continued)



**BHSF Limited** was incorporated in England and Wales with company number 00035500 by guarantee without a share capital on 29 December 1891. The company's legal authority is the Companies Acts 1862 to 1890 as amended by the Companies Act 2006.

**BHSF Management Services Limited** was incorporated in England and Wales with company number 10604505 as a private limited equity company with a share capital of £100 on 7 February 2017. The company's legal authority is the Companies Act 2006.

**BHSF Employee Benefits Limited** was incorporated in England and Wales with company number 03897857 as a private limited equity company with a share capital of £100 on 16 December 1999. The company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

**BHSF Occupational Health Limited** was incorporated in England and Wales with company number 04617238 as a private limited equity company with a share capital of £100,000 on 13 December 2012. The company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

**BHSF Medical Practice Limited** was incorporated in England and Wales with company number 04405662 as a private limited equity company with a share capital of £100 on 27 March 2002. The company's legal authority is the Companies Act 1985 as amended by the Companies Act 2006.

**BHSF Corporate Healthcare (Holdings) Limited** was incorporated in England and Wales with company number 08044019 as a private limited equity company with a share capital of £100 on 24 April 2012. The company's legal authority is the Companies Act 2006.

The registered office for all of the above companies is Gamgee House, 2 Darnley Road, Birmingham, West Midlands, B16 8TE.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION A: BUSINESS AND PERFORMANCE (continued)**

##### **A.1.5. MATERIAL LINES OF BUSINESS**

The BHSF group provides medical expense insurances, other insurances, a range of employee benefits services and occupational health services to 4,000 client businesses and 304,000 policyholders plus their families.

**Medical expense insurance:** Most of the medical expense insurance benefits help customers with their everyday health costs – those that do not come free or easy on the NHS – such as optical, dental, therapies, health consultations and much more or provide grants in the event of a medical condition. In addition to these benefits, BHSF Limited underwrites personal accident insurance and Plan4Life cancer insurance.

**Other insurances:** BHSF Group provides travel insurance, income protection insurance, and life assurance products which are underwritten by alternative insurers.

**Occupational health services:** Occupational health is concerned with the impact of work on health and of health on work. BHSF Occupational Health Limited's services are designed to support businesses in the management of health issues at work such as sickness absence, new starter health assessments and ill-health reviews by providing access to impartial, specialist support. BHSF Occupational Health Limited provides access to a full spectrum of occupational health services for employers of all sizes. These include an occupational health helpline, services such as sickness absence referrals and workplace assessments, and contracted OH services.

**Employee benefits services:** BHSF Employee Benefits Limited's services are designed to support businesses with the provision of holistic employee benefits packages to their employees. BHSF Employee Benefits Limited provides access to a full spectrum of employee benefits for employers of all sizes. These include salary sacrifice schemes, employee discount schemes, and voluntary benefits schemes.

**Private medical services:** BHSF Medical Practice Limited offers a range of GP and nurse consultation and treatment services as well as physiotherapy and mental health services to individuals and corporates in the heart of Birmingham city centre.

##### **A.1.6. SIGNIFICANT EVENTS OVER THE REPORTING PERIOD**

There have been no significant changes to structure or lines of business over the last 12 months.

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION A: BUSINESS AND PERFORMANCE (continued)****A.2. UNDERWRITING PERFORMANCE**

Underwriting performance is shown in the technical account in the Group's Annual report and Accounts. Total earned premiums net of reinsurance were 7% ahead of the previous year at £39.7m (2017: £37.2m). An exceptional sales performance and the full-year impact of taking on of the cash plan portfolio of another entity part-way through last year contributed to the increase in premiums.

The increase in premiums was more than matched by an increase in claims payments, resulting in an increase in the claims ratio – the ratio of claims payments to insurance premiums – from 69% in 2017 to 74% in 2018. Combined with increased administrative expenses, driven in part by additional regulations (GDPR and SMCR) as well as investments in improving technical infrastructure, the result on the technical account is a deficit of £1.2m (2017: a surplus of £0.3m).

The following shows the Group's underwriting income and expenditure per the Annual Report and Accounts.

	<b>2018</b>	<b>2018</b>	2017	2017
	<b>£'000</b>	<b>£'000</b>	£'000	£'000
<b>Premiums</b>				
Gross premiums written	<b>40,126</b>		37,185	
Outward reinsurance premiums	<b>(434)</b>		(367)	
Change in the provision for unearned premiums	<b>35</b>		338	
Earned premiums net of reinsurance		<b>39,727</b>		37,156
Allocated investment return transferred from the non-technical account		<b>56</b>		52
<b>Claims</b>				
Gross claims	<b>29,405</b>		26,236	
Reinsurer's share of claims	<b>(325)</b>		(177)	
Gross change in technical provisions	<b>235</b>		(238)	
Reinsurer's share of technical provisions	<b>(30)</b>		(34)	
Claims incurred net of reinsurance		<b>29,285</b>		25,787
Net operating expenses		<b>11,729</b>		11,111
<b>Underwriting (deficit)/surplus per Annual Report and Accounts</b>		<b>(1,231)</b>		310

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### SECTION A: BUSINESS AND PERFORMANCE (continued)

#### A.3. INVESTMENT PERFORMANCE

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Uncertainty in global politics, trade and economics resulted in a volatile year for investments in 2018. Despite reaching new record highs during the year, the FTSE 100 index closed the year down by just under 13% compared with its closing position at the previous year-end. This resulted in a weaker overall investment result than the previous year.

Investment income, being the interest and dividends earned on the investment portfolio was flat at £0.7m (2017: £0.7m) while unrealised losses of £1.2m were recorded compared to unrealised gains of £1.4m a year earlier. The volatility also resulted in £0.1m realised gains being recorded compared to realised gains of £0.2m a year before. Investment expenses remained flat at £0.1m (2017: £0.1m).

The net investment result for the year was therefore lower than that of the previous year at a £0.5m loss (2017: £2.1m profit). Based on the opening balance of the portfolio including cash and investment property, this represents a yield of -2.5% (2017: 9.5%).

Over the course of the year, the value of the investment portfolio (including cash and investment property) decreased by 10.8% from £24.8m to £22.1m.

Investment performance can be summarised as follows:

	<b>2018</b>	2017
	<b>£'000</b>	£'000
Investment income	<b>736</b>	733
Realised gains	<b>91</b>	164
Unrealised (losses)/gains	<b>(1,247)</b>	1,410
Investment expenses	<b>(108)</b>	(109)
Investment return allocated to the technical account	<b>(56)</b>	(52)
Net investment result	<b>(584)</b>	2,146

It is worth noting, however, that the markets recovered in the early part of 2019. The above losses were reversed by the end of the first quarter of 2019.



# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### SECTION A: BUSINESS AND PERFORMANCE (continued)

#### A.4. OTHER MATERIAL INCOME AND EXPENSE

Besides underwriting and investments, the other material lines of business for the Group are occupational health and other medical services and the broking of third party insurance and other employee benefit products and platforms.

##### A.4.1. OCCUPATIONAL HEALTH AND OTHER MEDICAL INCOME AND EXPENDITURE

The results as reported in the accounts of the Group and its subsidiaries are as follows:

	<b>2018</b>	2017
	<b>£'000</b>	£'000
<b>BHSF Occupational Health Limited</b>		
Revenue	<b>5,987</b>	4,805
Expenditure (excluding tax)	<b>(8,563)</b>	(6,029)
<b>Loss before tax</b>	<b>(2,576)</b>	(1,224)
<b>BHSF Medical Practice Limited</b>		
Revenue	<b>459</b>	468
Expenditure (excluding tax)	<b>(510)</b>	(464)
<b>Profit/(loss) before tax</b>	<b>(51)</b>	4
<b>Nexus Healthcare Limited*</b>		
Revenue	<b>0</b>	668
Expenditure (excluding tax)	<b>0</b>	(625)
<b>Profit before tax</b>	<b>0</b>	43
<b>Total occupational health loss before tax</b>	<b>(2,627)</b>	(1,177)

\* Nexus Healthcare Limited's trade was transferred to BHSF Occupational Health Limited during 2017. The company no longer trades.

During 2018 BHSF Group's occupational health division comprised BHSF Occupational Health Limited and BHSF Medical Practice Limited. From 1 January 2019 any occupational health work carried out by BHSF Medical Practice Limited transferred to BHSF Occupational Health Limited, leaving the former company to focus solely on the provision of private medical services.

The division sits under a holding company, BHSF Corporate Healthcare (Holdings) Limited. The results of the holding company are not presented above because it is a non-trading entity. BHSF Occupational Health Limited has grown rapidly since 2012 when the first occupational health companies were acquired. Since that time, a number of subsidiary companies have been acquired and integrated into BHSF Occupational Health Limited.

The ongoing work to merge and rationalise the operations of different businesses whilst investing in measures to grow and improve the business resulted in significant costs being incurred which pushed the division into a loss-making position. The 8% growth in revenue in the year from £5.9m to a total of £6.4m is a result of acquisitions in the prior year's adding to

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION A: BUSINESS AND PERFORMANCE (continued)

the volume of business as well as further sales generated by the sales force. Expenditure has increased by 28% from £7.1m to £9.1m due to the additional costs of merging and rationalisation outlined above, as well as the costs of investing in a dedicated sales team, marketing, and training of new clinical staff.

Over the coming years, as the ongoing process of rationalising the business continues, it is expected that revenue and cost of sales will continue to grow. Expenditure as a percentage of revenue will reduce as the rationalisation process nears its end and as goodwill balances become fully amortised.

#### A.4.2. EMPLOYEE BENEFITS INCOME AND EXPENDITURE

The latest results of BHSF Employee Benefits Limited, as presented in that company's statutory accounts are as follows:

	<b>2018</b>	2017
	<b>£'000</b>	£'000
Revenue	<b>8,101</b>	7,586
Expenditure	<b>(7,389)</b>	(6,428)
<b>Employee Benefits profit before tax</b>	<b>712</b>	1,158

As well as being the sales force for the health cash plan and other products of BHSF Limited, BHSF Employee Benefits Limited sells the insurance products of third parties as a broker as well as other employee benefits products and platforms.

Revenue increased by 7% from £7.6m to £8.1m as a result of increased sales of BHSF Limited health cash plan products and employee benefits products such as flexible benefits platforms. Expenditure has increased by 16% from £6.4m to £7.4m, reflecting growth in marketing spend and increases in bonuses to the sales force due to strong performance.

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**SOLVENCY AND FINANCIAL CONDITION REPORT**

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**SECTION A: BUSINESS AND PERFORMANCE (continued)**

**A.5. ANY OTHER INFORMATION**

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A summary of all of the above results is shown on page 5 showing the summarised results along with further items of lower materiality and the impact of intra-group eliminations which reconcile the results to the Group's Annual Report and Accounts.

**SECTION B: SYSTEM OF GOVERNANCE**

**B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE**

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**B.1.1. CORPORATE GOVERNANCE OVERVIEW**

Corporate governance facilitates effective, entrepreneurial and prudent directorship, providing the overall direction, supervision and accountability of an organisation. It consists of an administrative and supervisory body (the Group Board, and operating company boards); board committees; executive committees and key function holders (whose appropriate behaviour is underpinned by policies for remuneration, fit and proper, conflicts of interest and whistleblowing) who are interlinked by allocation of responsibilities and reporting lines. On an annual basis effectiveness reviews of boards and committees are carried out, and also appraisals of individual directors are performed.

BHSF Group operates an effective corporate governance framework. The corporate governance framework is supported by group-wide risk management and internal control systems. Compliance with the UK Corporate Governance Code is not a requirement for BHSF Group due to its size. However, as a point of best practice the Group aims to align its corporate governance policies and procedures with The Code as far as possible in a way that is proportionate to the nature and scale of the business.

- **The risk management system** – The risk management system facilitates the identification, assessment, and prioritisation of risks followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events or to maximise realisation of opportunities. This consists of risk management strategy, risk management policies, risk management processes, and risk management reports.
- **The internal control system** – The internal control system facilitates the achievement of BHSF Group's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws regulations and policies. It is designed according to the three lines of defence model. It is articulated within policies for the control functions which articulate the responsibilities, reporting lines, and the activities and approach taken for each of the control functions. The internal control system is documented within the internal control framework document. Its ongoing effectiveness is reviewed by Internal Audit and monitored by the Audit Committee.

**B.1.2. COMPANY FORM AND RULES**

Central to corporate governance is the obligation of directors to act in accordance with the articles of association, and Companies Act requirements.

Corporate governance of any company should be in line with the articles of association of the company that have been filed with Companies House. They define the form of the company and the written rules regarding the running of the company.

Records of the articles of association are maintained by the Group Company Secretary and are filed with Companies House.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

BHSF Group is required to maintain statutory registers for every company which includes incorporation documents and articles of association. Each company is obliged to update these registers and advise Companies House if there is a change to the statutory register.

##### **B.1.3. BOARD RESPONSIBILITIES**

The Group Board acts as the sole member of the operating companies. As such the Group Board's role in corporate governance is to ratify the appointment of the directors and the auditors and to satisfy itself that an appropriate governance structure is in place for each of the operating companies. Ultimate responsibility for appointment of directors and auditors lies with the board of the respective operating company.

Further to this in its role as sole member (i.e. sole shareholder) the Group Board is required to agree by open or written resolution material transactions requiring BHSF Group investment or capital injection and to agree any changes in the form or rules of the operating companies.

The BHSF Group governance arrangements are applied across all subsidiaries.

Responsibilities for corporate governance of BHSF Group are divided between the BHSF Group Limited board (the sole member of the operating companies) and the board of directors of each of the operating companies.

In line with a proportional approach, BHSF Group Limited and its operating companies have determined to implement shared control functions and implement consistent risk management systems and internal control systems. As such the Group Board has been designated ultimate responsibility for good corporate governance. This means the Group Board is ultimately responsible for:

- (a) Establishing and promoting the culture, values and ethics of BHSF Group
- (b) Ensuring that processes, mechanisms and structures are best matched to the business and its strategy
- (c) Reviewing management performance
- (d) Determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives
- (e) Maintaining sound risk management and internal control systems
- (f) Maintaining an appropriate relationship with the company's auditors
- (g) Establishing formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles should be applied
- (h) Presenting a fair, balanced and understandable assessment of BHSF Group's position and prospects

The operating company boards: BHSF Limited board, BHSF Employee Benefits Limited board; BHSF Management Services board; BHSF Occupational Health Limited board; and BHSF Medical Practice board oversee the direction and the control of the individual operating companies in accordance with their articles of association.

The board of directors for each operating company is responsible for the governance of that company. The Group Board's role in governance of the operating companies is to ratify the appointment of the directors and the auditors and to satisfy themselves that an appropriate

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

governance structure is in place and to agree by open or written resolution material transactions requiring BHSF Group investment or capital injection.

Subject to the articles of association, the directors of the operating company are responsible for the management of the operating company's business, for which purpose they may exercise all the powers of the company. In particular, the directors of the operating company are responsible for appointing and supervising the management of the operating company.

However, the operating company boards are legally bound to serve in the best interests of the Group Board. This is called its fiduciary duty. The directors of the operating boards are responsible for reporting to the group board on their stewardship of the business.

In respect of corporate governance the operating companies' boards have responsibility for oversight of the adoption of the Group Board's risk management and internal control systems requesting exemptions or additions as appropriate to ensure good corporate governance within the operating company.

The operating companies' boards are ultimately responsible for the setting of the operating companies' strategic aims and providing the leadership to put them into effect recognising the constraint that resources for initiatives (that is capital injections) are at the discretion of the Group Board and therefore that all material transactions require Group Board approval. The Group Board may, by special resolution, direct the operating company directors to take, or refrain from taking a specified action (shareholders' reserve power).

In summary the operating board directors are in control of the day to day running of the operating company, but must obtain approval from the Group Board for matters that require member's consent.

The operating company boards have delegated day-to-day management to the Executive Committee. This does not remove any of the responsibilities of these boards as set out above.

The board of directors of BHSF Group Limited sets policies which all subsidiary companies within the group are expected to follow. However, the operating boards of subsidiary companies are empowered to explain to the board why they are not able to comply with any such policy in order to safeguard the assets or other significant specific interest of their subsidiary. In particular, the operating board of BHSF Limited can explain why it cannot comply with a group policy in order to protect the interests of its insurance policyholders.

#### **B.1.4. BOARD COMMITTEES**

To assist the board of directors of BHSF Group Limited and the board of directors of the operating companies with their duties the Group Board has established several shared committees. These comprise independent non-executive directors in line with corporate governance best practice guidelines. The committees ensure independent oversight and challenge and support the operational efficiency of the board. The responsibilities of the committees and membership restrictions are shown in the figure below.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION B: SYSTEM OF GOVERNANCE (continued)

<b>Remuneration and Nominations Committee</b>
The Committee is responsible for overseeing the remuneration and nomination arrangements of the Chairman, executive directors and senior management with regulatory functions. The Committee ensures that each board retains an appropriate balance of skills to support the strategic objectives of the BHSF Group and that an effective framework for senior succession planning is in place.
<b>Investment Committee</b>
The Committee recommends the investment strategy and policy for approval by the BHSF Limited operating board. The Investment Committee oversees the performance of the investment managers, monitors fund performance and oversees compliance with the prudent investment principles.
<b>Audit Committee</b>
The Committee monitors the integrity of the BHSF Group's financial reporting, including the effectiveness, appropriateness and completeness of internal control and risk management systems and the appointment and effectiveness of internal and external auditors.
<b>Risk and Compliance Committee</b>
The Committee oversees the overall risk strategy (including the risk appetite and tolerance frameworks), and the risk management policies. It oversees the BHSF Group's management of emerging risks and the own risk and solvency assessment policy and results.
<b>Transformation Board</b>
The Transformation Board is a committee of the Group Board set up to oversee and drive forward a significant programme of ongoing transformation across the Group.

The above committees are made up entirely of independent non-executive directors with the exception of the Transformation Board, which has the Chief Executive as a member. Where they are not members of the committees, relevant executive directors and senior managers attend committee meetings where appropriate.

#### B.1.5. ROLE OF THE BOARD IN PRODUCTION OF STATUTORY AND REGULATORY DISCLOSURES

Company law requires the directors to prepare financial statements and supplementary information for each financial year in accordance with applicable law and regulations and in accordance with UK Generally Accepted Accounting Practice (FRS 102 and FRS 103). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period

In preparing these financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

Solvency II regulation requires the directors to prepare quantitative reporting templates; regular supervisory reports; solvency and financial condition reports (SFCRs); and own risk and solvency assessment (ORSA) disclosures. Under the regulation the directors must not sign off these disclosures unless they are satisfied that they give a true and fair view of the state of affairs of BHSF Limited and of BHSF Group Limited.

Owing to the highly integrated and centralised nature of risk management and governance in the BHSF Group, waivers have been obtained which exempt BHSF Limited from the need to prepare a solo ORSA or SFCR. Most members of the BHSF Limited board play their part in the preparation of the Group ORSA and Group SFCR by virtue of their membership of the BHSF Group Limited board.

BHSF Group is required to make disclosures to the public and to the regulators on a regular basis. All disclosures are subject to Audit Committee review and Group Board approval prior to publishing. The board sets its approach to corporate reporting and disclosure within its board reporting and disclosure policy. In particular it sets out its approach to ensure complete, reliable, clear, consistent, timely and relevant information concerning the business activities.

#### **B.1.6. CORPORATE GOVERNANCE DIVISION OF RESPONSIBILITIES**

##### **B.1.6.1. SUMMARY**

In compliance with the Corporate Governance Code there is a clear division of responsibilities between the running of the board and the executive responsibility for running the company's business. No one individual has unfettered powers of decision. For BHSF Group this is articulated through the responsibilities of the Chairman of the Group Board and the responsibilities of the Group Chief Executive.

##### **B.1.6.2. CHAIRMAN**

The Chairman of the board is an independent appointment and is responsible for the leadership of the board of BHSF Group Limited and each of its subsidiary companies. The Chairman provides leadership of each board and ensures its effectiveness. The Chairman promotes a culture of openness and debate, and fosters constructive relations between executive and independent non-executive directors. The Chairman ensures that all board members receive accurate, timely and clear information. The Chairman ensures there is a good working relationship between the executive and non-executive directors and sufficient time to discuss strategic issues. The Chairman plays a key role in promoting the culture and values of BHSF.

##### **B.1.6.3. GROUP CHIEF EXECUTIVE**

The Group Chief Executive is responsible for the day to day management of the business, in line with the strategy and objectives approved by the Group Board.

The Group Chief Executive may make decisions in all matters affecting the operations, performance and strategy of the Group's businesses, with the exception of those matters reserved to the board or specifically delegated by the board to its committees, or subsidiary company boards.



## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

The Group Chief Executive is responsible for development of strategic proposals, the implementation of the Board's strategic decisions and the operational management of the business on behalf of the board.

The Group Chief Executive leads the executive directors and the senior managers in the management of all aspects of the day-to-day business of BHSF Group.

The Group Chief Executive ensures that the board is kept informed of all key issues and ensures that all strategic decisions, and their risks, are analysed appropriately.

##### **B.1.6.4. EXECUTIVE DIRECTORS**

An executive director is a member of the board who also has management responsibilities as allocated by the Group Chief Executive.

##### **B.1.6.5. INDEPENDENT NON-EXECUTIVE DIRECTORS**

These are directors without management responsibility.

Independent non-executive directors are responsible for reviewing the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. Independent non-executive directors oversee the integrity of financial information and seek assurance that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning. Independent non-executive directors offer constructive challenge over the executive directors' implementation of the business strategy.

##### **B.1.6.6. SENIOR INDEPENDENT DIRECTOR**

The Group Board has appointed one of the independent non-executive directors to be the Senior Independent Director (SID).

The SID acts as a Deputy Chairman, providing support and assistance to the Chairman as required and acts as an intermediary for other directors where necessary.

The SID is available to other directors or any other stakeholder who has concerns and observations which have not been adequately dealt with through the normal executive channels.

##### **B.1.6.7. BOARD COMMITTEE CHAIRMEN**

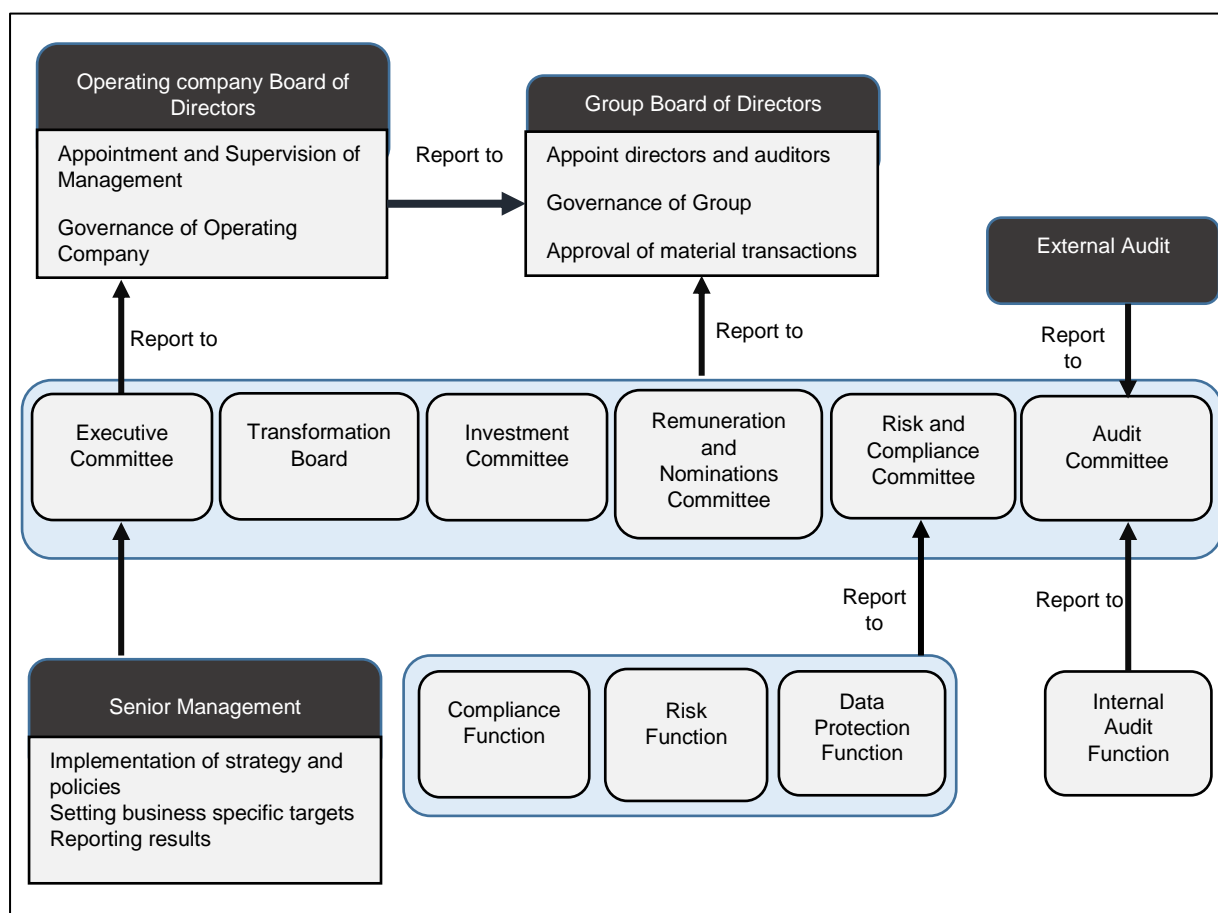
The committee chairs are responsible for the leadership and governance of BHSF Group Board committees and report matters of significance to the board.

##### **B.1.7. REPORTING LINES**

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

The Group Chief Executive reports directly to the Chairman of BHSF Group Board and executive directors report directly to the Group Chief Executive. Senior management are accountable to their respective members of the Executive Committee.

BHSF Group incorporates the control functions (risk, compliance, internal audit, data protection) and the associated reporting lines into the organisational structure in a way which ensures that each function is free from influences that may compromise the function's ability to undertake its duties in an objective, fair and independent manner. Each function operates under the ultimate responsibility of, and reports to the Group Board. Each individual performing a function reports any major problem in their area of responsibility to the Group Board.



**B.1.8. ALLOCATION OF FUNCTIONS**

The Group Board is responsible for overseeing the allocation of key functions according to the senior insurance management regime regulation. This includes the allocations of key functions for independent non-executive directors and executive directors and senior management in key functions.

The Group Board is required to maintain a register of directors and a register of people with significant control (Companies Act). The PRA has defined individuals with significant control to include senior insurance management function, FCA function, control functions and any

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

individual responsible for a regulated activity as defined within the senior insurance manager's regime. The register contains responsibilities/ accountabilities of the function, individual allocated, a description of the individual's experience, knowledge and skills as aligned to the responsibilities of that function. Any proposed changes to the register must be notified and approved by the Group Board and the PRA.

**B.1.9. BOARD REMUNERATION POLICY**

**B.1.9.1. REMUNERATION POLICY**

BHSF Group maintains a remuneration policy. The remuneration policy applies to all key persons - that is persons who can significantly influence the decision making of BHSF Group.

This includes non-executives; executives; Senior Insurance Manager Function holders with PRA supervisory pre-approval; Key Function Holders reported to the PRA (including risk, compliance, audit, company secretariat and finance), commission-earning sales staff and material risk takers.

Material risk takers are those individuals who make material risk decisions which have been defined to be:

- Acquisitions and divestments
- Sales strategy and business development
- Underwriting and pricing strategy
- Material projects
- Capital management strategy and cash flow management

The objectives of the remuneration policy are:

- a) To promote sound and effective risk management and not encourage excessive risk-taking
- b) To promote employee behaviour and performance that is in line with the long-term interests of the business

**B.1.9.2. EXECUTIVE AND SENIOR MANAGEMENT REMUNERATION**

Executives and Senior Management receive fixed and variable benefits as shown in the table below.

<b>Fixed benefits</b>	
Salary	<p>The Remuneration and Nomination Committee annually reviews terms of employment of executive directors, senior managers and key function holders who are PRA/FCA approved, considering factors such as:</p> <ul style="list-style-type: none"><li>• Salary increases for all employees</li><li>• The performance and experience of the employee</li><li>• Group or division performance</li><li>• Internal relativities</li><li>• Economic factors such as inflation</li><li>• Benchmarking of employee package against similar industry roles</li></ul>

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Fixed benefits</b>	
Benefits	Executives and Senior Managers are offered benefits which reflect their standing within the organisation including: <ul style="list-style-type: none"><li>• Car allowance</li><li>• Health and wellness benefits</li><li>• Life assurance benefits</li></ul>
Provision for retirement income	Executives and Senior Managers are offered the option to receive payments into a defined contribution scheme. The company makes a contribution provided the employee contributes at least 3%
<b>Variable benefits</b>	
Annual bonus/ short term incentive scheme	<p>Few members of the senior team have performance bonuses, but where they are paid, there is regular scrutiny to ensure that the bonus does not encourage risky behaviour. The bonus scheme for the Managing Director of BHSF Employee Benefits Limited is reviewed annually by the Remuneration and Nomination Committee.</p> <p>All Executives and Senior Managers together with all other staff may receive a discretionary amount of profit share each year payable in July, depending on the Group's operating performance the previous year.</p>
Long term incentive scheme	There is currently no long-term incentive scheme in place.
<b>Termination Payments</b>	
Termination payments	Any termination payment is initially considered by the Group Chief Executive up to delegated authority limits. Amounts above the delegated authority limits are referred to the Group Board.
The level and timing of these benefits is controlled to ensure that excessive risk taking is not encouraged.	
The key processes and controls are shown in the table below.	
<b>Processes and controls</b>	
Performance management	<p>Performance of Executive Directors is reviewed against objectives during regular 1-2-1 meetings with the Group Chief Executive. Performance of senior managers is reviewed against objectives during regular 1-2-1 meetings with the Executive Directors to whom they report. A formal appraisal process is in place for all directors and senior managers.</p> <p>Below senior management level, objectives are set on an annual basis through a formal appraisal process, which covers both performance and behaviours.</p>
Variable pay limits	Variable payments are only provided to sales-based employees within BHSF Employee Benefits Limited.

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Processes and controls</b>	
Deferred element of variable benefits	Of those sales-based employees within BHSF Employee Benefits Limited the only one identified for consideration of deferment is the Chief Commercial Officer, whose total pay contains approximately 44% of variable pay. The Remuneration and Nomination Committee considers each year the bonus and earning capability of the Chief Commercial Officer and specifically reviews whether any deferment is required.
Independent setting of remuneration elements	Executive remuneration is determined by the independent non-executive directors who sit on the Remuneration and Nomination Committee and they take into account performance and benchmarks against others in comparable positions in similar undertakings.
Remuneration review	Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each division's salary increase budget is set with reference to local market conditions.

**B.1.9.3. INDEPENDENT NON-EXECUTIVE DIRECTORS AND THE CHAIRMAN'S REMUNERATION**

<b>Independent non-executive directors' benefits</b>	
Fees	All independent non-executives receive a basic fee for their duties as a Group Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of committees. If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.
Expenses	Travel and expenses for independent non-executives are incurred in the normal course of business. The costs associated with these are all met by the Company.
<b>Chairman</b>	
Fees	The Chairman receives an annual fee for the performance of the role. On appointment, the fee may be fixed for a specified period of time. Fees will otherwise be reviewed annually by the Remuneration and Nomination Committee.
Expenses	Travel and expenses for the Chairman are incurred in the normal course of business. The costs associated with these are all met by the company.
Other benefits	N/A

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### **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

The level and timing of these benefits is controlled to ensure that excessive risk taking is not encouraged.

The key processes and controls are shown in the table below.

<b>Processes and controls</b>	
Independent setting of remuneration elements	Fees for non-executive directors are reviewed annually and are determined by the executive directors and the Chairman.

#### **B.1.9.4. SALES STAFF**

<b>Sales Staff</b>	
Performance related benefits	For staff across the business, the remuneration review is based on the appraisal rating given by the line manager. Sales staff are paid a salary and performance bonuses to reflect their effort and success. The ratio of performance-related pay to salary is kept under regular review to ensure that, while success is rewarded, the earnings proportions remain reasonable. No-one is rewarded for risky behaviour and the quality of sales, as measured by persistency statistics, is a factor. If a new policy lapses within three months then no commission is paid to the sales staff.

#### **B.1.10.SIGNIFICANT CHANGES TO THE GOVERNANCE SYSTEM OVER THE REPORTING PERIOD**

BHSF Group has continued to develop corporate governance over the reporting period.

##### **B.1.10.1. BOARD COMMITTEE CHANGES**

The Executive Committee was created during the reporting period to better allow the Group and Operating Boards to focus on strategic matters.

The Transformation Board was set up early in 2019 in order to ensure oversight by the Group Board of an ongoing programme of significant transformation in business direction.

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### SECTION B: SYSTEM OF GOVERNANCE (continued)

#### B.2. COMPLIANCE WITH FIT AND PROPER REQUIREMENTS

##### B.2.1. FIT AND PROPER POLICY

BHSF Group maintains a fit and proper policy which applies to all key persons - that is persons who can significantly influence the decision making of BHSF Group. This includes independent non-executive directors, executive directors, senior insurance manager function holders with PRA supervisory pre-approval and significant influence functions holders, key function holders (including risk, compliance, company secretariat and underwriting); and material risk-takers.

The objectives of the fit and proper policy are:

- a) To ensure that all key persons have appropriate professional qualifications, knowledge and experience that are adequate to enable sound and prudent management.
- b) To ensure that all key persons are of good repute and integrity.

The fit and proper policy serves to ensure both that individuals recruited to key positions are fit and proper and, through annual reviews of fitness and propriety, that individuals continue to be fit and proper whilst in post.

##### B.2.1.1. EMPLOYEES OF THE COMPANY

Key fit and proper processes for employees of the company are summarised in the table below.

Processes and controls	
Role description	For all existing and new key person roles in the company a role description document exists which provides a description of the role. This includes a description of the duties, reporting lines, key outputs of the role, interactions within the business and the fit of the role within the organisational structure.
Person specification	For all existing and new key person roles in the company a person specification exists which provides a description of the skills, knowledge, qualifications, experience and personal qualities that are both essential and desirable for the role. This includes, where relevant, the insurance, financial, accounting, actuarial and management skills of the person that are required to perform the role.
Vetting procedures	For all new appointments vetting is undertaken, this includes interviewing, taking up references, review of original qualification documentation and DBS checks. Senior management positions and above are subject to psychometric testing.
Group Chief Executive approval of senior management appointment	For all new appointments, or internal transfers into senior management position (excluding key persons), a candidate must be approved by the Group Chief Executive prior to an offer being made. The Group Board is notified of any new appointments or internal transfers into senior management positions.

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Processes and controls</b>	
Group Board approval of board appointments	The Remuneration and Nomination Committee reviews all Board and regulatory function candidates and makes recommendations for approval to the Group Board. A candidate must be approved by the Group Board before an offer is made.
Regulatory notification	For all new appointments, or internal transfers into roles that require PRA/ FCA approval the Group submits an application to the PRA/ FCA disclosing all information in relation to the candidate's fitness and propriety. The Group discloses any additional information if it comes to light during the application process. All appointments which require PRA/FCA approval are conditional upon PRA/FCA acceptance of the fitness and propriety of the candidate. The Group will notify their supervisory authority if any of the key persons have been replaced because they no longer fulfil the fit and proper requirements.
Independent non-executive directors oversight	Independent non-executive directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. Independent non-executive directors have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.  Where directors have concerns which cannot be resolved about the running of the Group or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, an independent non-executive director should provide a written statement to the Chairman, for circulation to the board, if they have any such concerns.

**B.2.1.2. INDEPENDENT NON-EXECUTIVE DIRECTORS**

Key fit and proper processes for independent non-executive directors within the Group are summarised in the table below.

<b>Processes and controls</b>	
Chairman of board responsibilities description	A description of the responsibilities for the Chairman of the board are documented. This provides a description of the duties, personal attributes and interactions required from the Chairman.
Election of Chairman and any Deputy-Chairman	The board of BHSF Group Limited shall decide which independent non-executive director will be Chairman and which will be Deputy-Chairman (if any) of each group company, and of each board committee. The Chairman and the Deputy-Chairman must be independent non-executive directors. At any board meeting at which the Chairman is not present or not able to act, the board of the company concerned may appoint a Chairman pro-tempore from among the members of the board; an executive director may only be appointed if no independent



**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Processes and controls</b>	
	non-executive director is able to act, subject to the meeting being quorate.
Independence of independent non-executive directors	<p>For each independent non-executive the Group Board determines whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. This considers at a minimum if the appointee:</p> <ul style="list-style-type: none"><li>(i) has been an employee of any company within the Group within the last five years</li><li>(ii) has, or has had within the last three years, a material business relationship with any group company either directly, or as director or senior employee of a body that has such a relationship</li><li>(iii) has received or receives additional remuneration from any group company apart from a director's fee, participates in the performance related pay scheme, or is a member of the Group's pension scheme</li><li>(iv) has close family ties with any of the Group's advisers, directors or senior employees</li><li>(v) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies</li><li>(vi) has served on the Group Board for more than nine years from the date of their first election.</li></ul>
Appointment of new independent non-executive directors	<p>Appointments are made, on merit, against objective criteria (e.g. filling a skills gap on the Board) and, where appropriate, to objective regulatory criteria, and with due regard for the benefits of diversity on the Board.</p> <p>For each new independent non-executive appointment a vetting process is undertaken. This includes an assessment of whether the individual has the necessary skills, qualification, knowledge and experience to fulfil their individual independent non-executive role and ensure the Group is overseen in a professional manner. An assessment of whether a person is proper is undertaken, prior to a new appointment. This includes an assessment of that person's honesty and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects relevant for the purposes of the assessment.</p> <p>All new appointments receive induction on joining the Group Board and should regularly update and refresh their skills and knowledge.</p>
Board diversity	<p>BHSF Group recognises that the Group Board's composition and balance supports the business in delivering sustainable long-term value. This means ensuring that BHSF Group's board has the diverse skill sets, knowledge and experience, and ensuring that succession planning is supported by a strong bench with a depth of talent.</p>

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Processes and controls</b>	
	<p>Alongside this it means ensuring that the board has appropriate independence to carry out its duties and responsibilities effectively and that no individual or small group of individuals can dominate the Group Board's decision taking.</p> <p>The Remuneration and Nomination Committee periodically evaluates the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.</p> <p>BHSF Group recognises that the Group Board should be of sufficient size that the requirements of the business can be met. BHSF Group ensures that changes to the Group Board's composition, and that of its committees, can be managed without undue disruption, and should not be so large as to be unwieldy.</p>
Annual evaluation of board performance	<p>The Group Board undertakes a formal evaluation of its own performance on an annual basis and also conducts a rigorous independent evaluation every three years. This is supported by a self-assessment of performance by the Group Board's committees, an assessment of the individual executive directors undertaken by the Group Chief Executive, and an assessment of the individual independent non-executive directors undertaken by the Chairman of the Group Board. The Chairman is assessed annually by the Senior Independent Director. The Group Chief Executive is assessed by the Chairman, with input from other directors.</p>
Re-election of directors and terms of appointment	<p>Independent non-executive directors are appointed for specified terms subject to re-appointment and to statutory provisions relating to the removal of a director.</p> <p>Independent non-executive directors are submitted for re-election at regular intervals, subject to continued satisfactory performance. Any term beyond six years for an independent non-executive director should be subject annually to particularly rigorous review, and should take into account the need for progressive refreshing of the board.</p>

**B.2.1.3. KEY FUNCTIONS**

<b>Role</b>	<b>Key Senior Insurance Manager Regime Function</b>	<b>Responsibilities</b>
<b>Chief Executive Officer</b> <i>Ian Galer</i>	Chief Executive Function	The Chief Executive Officer has responsibility, under the authority of the Group Board, alone or jointly with others, for carrying out the management of the conduct of the whole of the business of BHSF Group.

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Role</b>	<b>Key Senior Insurance Manager Regime Function</b>	<b>Responsibilities</b>
		Key accountabilities include advising the Group Board on strategic direction; delivering and implementation of a business plan; development and maintenance of BHSF Group's business model; embedding BHSF Group's culture and standards in its day-to-day management; ensuring compliance with regulation and legislation, and ensuring risks are appropriately managed; leading the development of BHSF Group's culture and standards; and developing a competitive responsibility for the underwriting decisions in respect of material insurance risks and developing a competitive product portfolio
<b>Chief Finance Officer</b> <i>Tom Ross</i>	Chief Finance Function Chief Actuarial Function Investment Function	The Chief Finance Officer has responsibility for the management of the financial resources of BHSF Group and reporting to the boards in relation to financial affairs. Key accountabilities include: production and verification of integrity of BHSF Group's financial information and regulatory reporting; allocation and maintenance of the BHSF Group's capital and liquidity; provision of annual budgets; managing group taxation; cash flow management; monitoring profit and loss; coordinating the calculation of technical provisions; and expressing an opinion regarding the underwriting policy
<b>Chief Operations Officer</b> <i>Geoff Guerin</i>	Claims Function Chief Operations Function Head of Key Business Area- BHSF Limited	The Chief Operations Officer has responsibility for the management of BHSF Limited within profit and loss targets and risk appetite tolerances. Key accountabilities include the management of the medical expense insurance business including health cash plans, personal accident insurance and the personal cancer plans, managing reinsurance relationships and ensuring quality customer service

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Role</b>	<b>Key Senior Insurance Manager Regime Function</b>	<b>Responsibilities</b>
		activity in all operating companies of the Group.
<b>Chief Commercial Officer</b> <i>Brian Hall</i>	Head of Key Business Area (Employee Benefits Limited)	The Chief Commercial Officer has responsibility for the management of BHSF Employment Benefits Limited. Key accountabilities include business development (acquisition, strategic partnerships and marketing/ sales initiatives) and product development
<b>Chief People Officer</b> <i>David Nuttall</i>	Human Resource Function	The Chief People Officer has responsibility for induction, training and professional development for all BHSF Group's key function holders; and responsibility for the management of BHSF Management Services Limited, including development of effective employee remuneration strategies and policies and the development of effective fit and proper policy. Key accountabilities include monitoring compliance with employment law and ensuring staff work in a safe environment under health and safety legislation
<b>Chief Information Officer</b> <i>Adrian Hope</i>	IT Function Chief Operations Function	The Chief Information Officer has responsibility for the development and implementation of the information technology and telecommunications architecture (including hardware and software) and for the management of information technology issues including disaster recovery and security of data.
<b>Chief Medical Officer</b> <i>Philip McCrea</i>	Head of Key Business Area (BHSF Occupational Health Limited)	The Chief Medical Officer for the management of BHSF Occupational Health Limited. Key accountabilities include ensuring quality clinical services
<b>Head of Technical Underwriting</b> <i>Steve Munday</i>	Chief Underwriting Function	Key accountabilities include the underwriting of the medical expense insurance business including health cash plans, personal accident insurance and the personal cancer plans.

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Role</b>	<b>Key Senior Insurance Manager Regime Function</b>	<b>Responsibilities</b>
<b>Head of Risk</b> <i>Adam Lea</i>	Chief Risk Function	<p>The Head of Risk has responsibility for the overall Enterprise Risk Management Framework (ERMF).</p> <p>Key accountabilities include assisting the board and other functions in the effective operation of the ERMF; continuous monitoring and improvement (where required) of the ERMF; monitoring the general risk profile of BHSF Group; detailed reporting on risk exposures and advising the BHSF Group Board on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments; identifying and assessing emerging risks, assessing the performance of BHSF Group's own risk and solvency assessment; and reviewing on an annual basis risk management policies.</p>
<b>Head of Compliance</b> <i>Louise Eden</i>	Head of Compliance Function	<p>The Head of Compliance has responsibility for ensuring that BHSF Group has complied with the obligation to satisfy itself that persons performing a key function are fit and proper.</p> <p>Key accountabilities include the review of financial promotions; fit and proper testing; assessing the adequacy of the measures adopted by BHSF Group to prevent non-compliance; monitoring changes in regulation and for preparing a compliance plan.</p>
<b>Company Secretary</b> <i>Charlotte Taylor</i>		<p>The Company Secretary has responsibility for ensuring that the administrative responsibilities set out in company law and the articles of association are properly carried out. The Company Secretary supports the Chairman in ensuring policies and procedures for sound corporate governance are in place.</p> <p>Key accountabilities include timely and quality information and communication,</p>

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION B: SYSTEM OF GOVERNANCE (continued)**

<b>Role</b>	<b>Key Senior Insurance Manager Regime Function</b>	<b>Responsibilities</b>
		maintaining company records, data protection requirements; ensuring regulatory compliance with pension auto enrolment legislation and the pension regulations; and placement of group insurance policies. Also responsible for liaison with internal auditors.
<b>Head of Internal Audit</b>	Head of Internal Audit	Internal Audit is provided by an external provider of internal audit services, RSM, and it is responsible for the establishment, implementation and maintenance of an audit plan issuing recommendations based on the internal audit activities, and monitoring compliance with any recommendations agreed by the Group Board.

<b>Non-Executive Directors</b>	<b>Senior Insurance Manager Regime key functions</b>
Andrew Milner	Chairman
John Hardy	Chair of Risk and Compliance Committee Chair of Investment Committee
Gary Cowdrill	Chair of Audit Committee Senior Independent Director
Chris Wiggin	Chair of Remuneration and Nominations Committee
Sara Fowler	Chair of the Transformation Board

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

**B.3. RISK MANAGEMENT SYSTEM**

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**B.3.1. OVERVIEW OF ENTERPRISE RISK MANAGEMENT FRAMEWORK**

The Corporate Governance framework is supported by an Enterprise Risk Management Framework (ERMF), utilising the key elements of Enterprise Risk Management (ERM) and ensuring adherence to Solvency II. Key features of the ERMF are pinpointed in the image below, with the main risk management cycle orientating around a risk-aware culture.

The ERMF system facilitates the identification, assessment, and prioritisation of risk(s) across all risk categories that are pertinent to BHSF Group, defined in a Group-wide Risk Universe. Further to this, a chosen suite of control actions, whether to minimise the likelihood and/or impact of the risk(s) or to maximise their opportunity, are then deployed and monitored. Quarterly reporting filters up into a number of Executive and Non-Executive

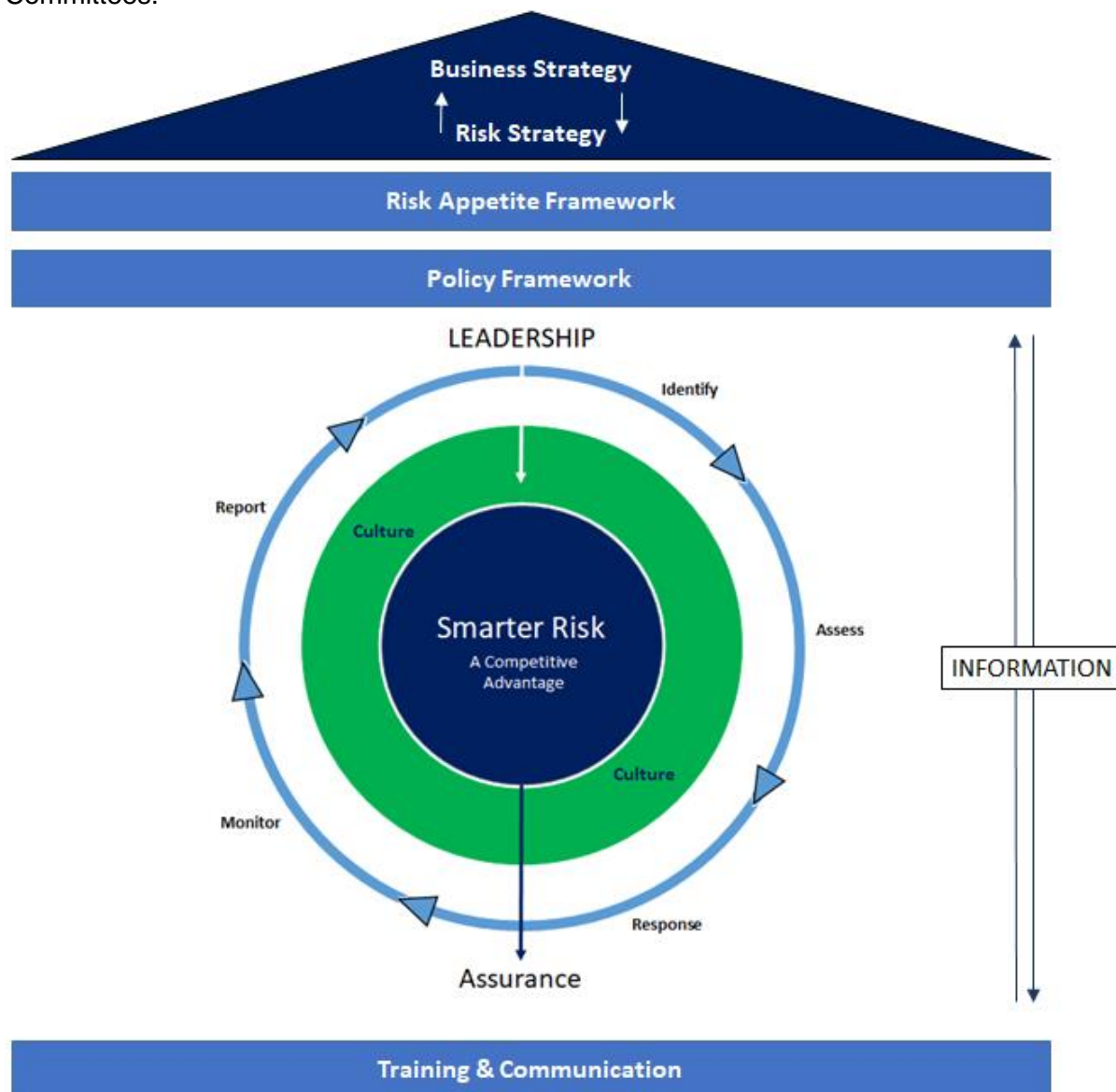
**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

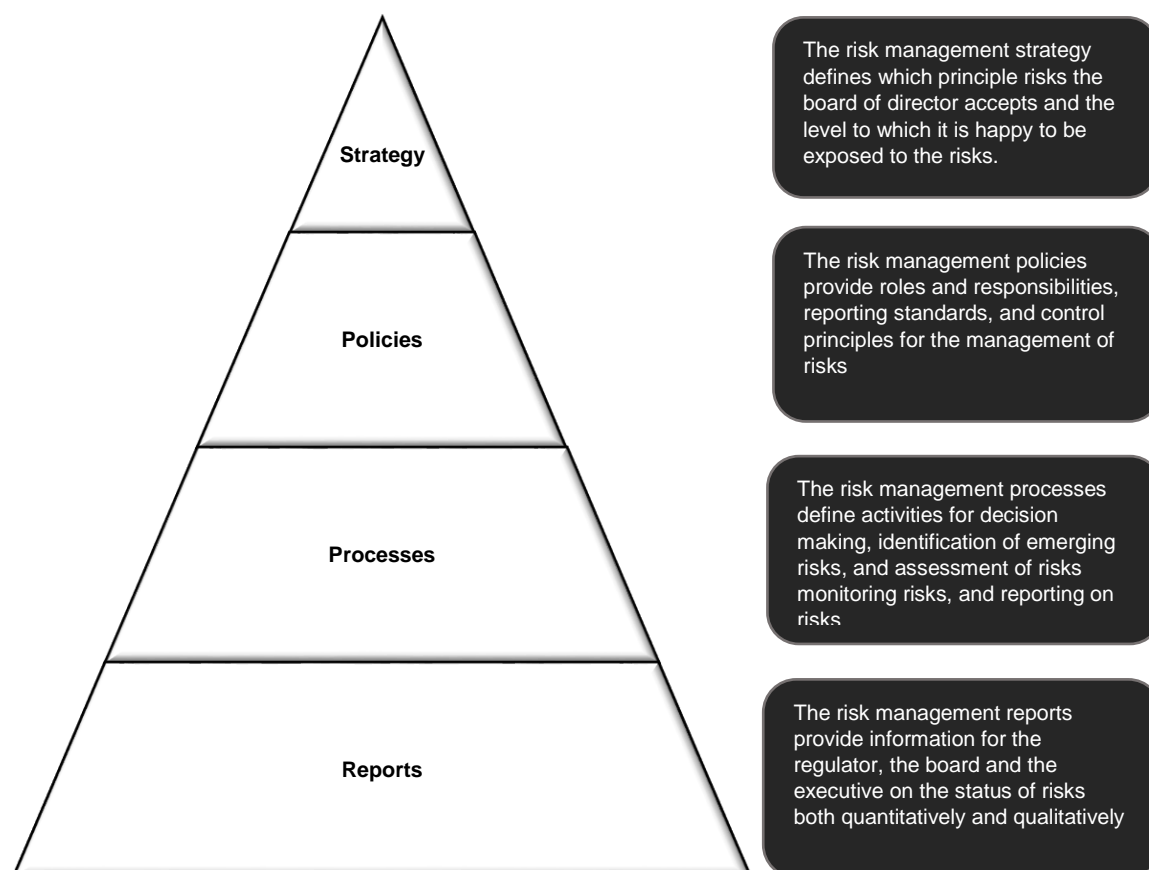
Committees.





**SECTION B: SYSTEM OF GOVERNANCE (continued)**

<p>Risk Management System</p>	<p>The risk management system assures the identification, assessment, and prioritisation of risks across all risk categories followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events or to maximise realisation of opportunities. This consists of risk management strategy, risk management policies, risk management processes, risk management reporting and disclosures</p>
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**B.3.2. RISK MANAGEMENT STRATEGY**

**B.3.2.1. GROUP BOARD RISK APPETITE STATEMENT**

The risk appetite statement is set by the Group Board and provides the primary risk objective. The risk appetite is implemented through the ERMF and the current embedding of risk appetite and a risk-aware culture within the Group.

**B.3.2.2. RISK PREFERENCES AND ATTITUDES**

The risk appetite statement is implemented through the selection of risks that the Group Board accepts. At a principle risk level, the Group Board defines whether it will accept the risk, reject the risk or determine to transfer the risk.

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

For each risk that the Group Board is willing to accept, risk attitudes are defined, and range from being risk-seeking to risk-averse. Thus they provide the direction of principle risk exposure over the planning horizon and assist in the Forward Looking Assessment of Own Risk (FLAOR).

**B.3.2.3. RISK TOLERANCES**

Once the risk preferences and attitudes have been defined for the principle risks, risk tolerances are defined for parameters that determine the exposure to risks. Risk tolerances provide boundaries to the exposure of risk the Group Board is willing to take and are monitored on a regular basis. The monitoring against risk tolerances enables action to be taken when potentially too much or too little risk is taken.

**B.3.3. RISK MANAGEMENT POLICIES**

BHSF Group has established risk management policies currently covering the regulated (Solvency II) risks to which the Group is exposed.

- a) Capital management and dividends policy
- b) Liquidity policy
- c) Insurance/ underwriting risk policy
- d) Market/ investment risk policy
- e) Credit/ counterparty default risk policy
- f) Operational risk policy
- g) Outsourcing and Supplier risk policy

These risk management policy documents clearly articulate the principles and practices for the management of risks including: an articulation of objectives; reporting procedures; roles and responsibilities; processes and key controls in a manner that is consistent with the business strategy.

**B.3.4. RISK MANAGEMENT PROCESSES**

The risk management lifecycle consists of processes for emerging risk identification, risk and solvency assessment, risk reporting and disclosure, risk monitoring, risk response and decision making.

**SECTION B: SYSTEM OF GOVERNANCE (continued)**



**B.3.4.1. EMERGING RISK IDENTIFICATION PROCESS**

BHSF Group uses the Lloyds of London definition of Emerging Risk, that is: an issue that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting. Identification of emerging risk(s) involves consideration of factors that are both internal and external to an organisation, referred to as the internal and/or external context, further defined in ISO31000 Risk Management and COSO ERM<sup>1</sup>.

On an annual basis, and preceding the business planning activity, BHSF Group undertakes a horizon scanning activity which feeds into a register of identified Emerging Risks. Less formally, and on an ongoing basis, the executive team and senior management scans the horizon and identifies potential risk drivers.

**B.3.4.2. RISK MONITORING**

Risk monitoring is undertaken through the use of risk tolerance monitoring. For each risk category, risk tolerances are defined, with a dashboard of risk status against tolerance for these key risk indicators.

**B.3.4.3. RISK RESPONSE**

BHSF Group has in place discrete processes for handling risk events or incidents (risks that have materialised) and robustly defined processes for managing catastrophic events.

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<sup>1</sup> Committee of Sponsoring Organisations of the Treadway Commission Enterprise Risk Management

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

Business continuity planning ensures the reasonable continuation of services to customers in the occurrence of a catastrophic operational event. This has been tested within the past twelve months.

##### **B.3.4.4. RISK REPORTING AND DISCLOSURES**

In accordance with regulatory requirements BHSF Group annually produces an Own Risk and Solvency Assessment (ORSA) disclosure for the regulator. In addition to this, on a quarterly basis BHSF Group produces an internal quarterly risk report providing an overview of the Group's risk profile and granular dissection of key risk topics to both Executive and Non-Executive Directors.

##### **B.3.4.5. DECISION MAKING**

Key decisions for the business are made in line with the stated Group Board's risk management strategy. This means that key decisions should not cause a breach to any of the defined risk tolerances.

BHSF Group has identified the following as key decisional types (these are decisions that may materially affect the risk profile of BHSF Group):

- Investment strategy;
- Product developments including pricing and re-pricing;
- Business planning; and
- Acquisition

For significant decisions, a risk assessment is undertaken to establish the possible implications of the proposal in terms of solvency position and overall risk status. These would include dividend payments within the Group, acquisitions, or significant capital investments.

- Quantitative analysis: Determine the implications on solvency and cash flow position. This will use the standard formula model based upon various scenarios for the proposal over a projected period
- Qualitative analysis: Determine the overall impact on the risk profile of the undertaking. This will use the risk universe as a basis and provide a qualitative assessment of the impact

#### **B.4. OWN RISK ASSESSMENT**

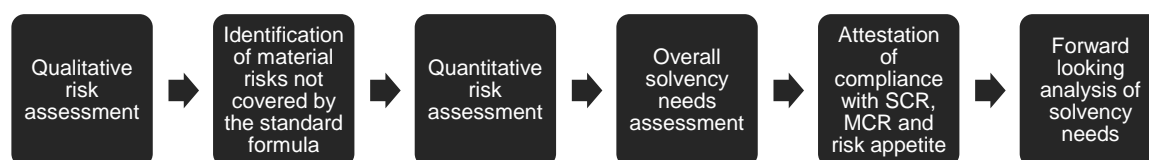
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##### **B.4.1. ORSA PROCESS**

The ORSA process is used to assess the risk profile and solvency requirement of the business.

It consists of the following activities:

- (a) Qualitative risk assessment
- (b) Identification of material risks not covered by the standard formula
- (c) Quantitative risk assessment of all material risks
- (d) Current overall solvency needs assessment
- (e) Attestation of solvency compliance, and
- (f) Forward looking analysis of solvency compliance



In line with regulatory requirement, the full ORSA process is carried out annually in line with business planning activity and on an ad-hoc basis driven by significant change such as acquisition activity.

##### **B.4.1.1. METHODOLOGY FOR DETERMINING OWN SOLVENCY NEEDS**

BHSF Group maintains a risk universe which provides a categorisation of risks that are pertinent to the Group regardless of their materiality. This includes all the risk categories defined by the regulator and additional non-regulated risks. Qualitative risk assessment is carried out quarterly, with consideration given to both the internal and/or external context.

The qualitative risk assessment informs the identification of pertinent risk categories that are not covered or defined by the regulator and therefore have no regulatory method defined for calculating the exposure (the standard formula). A risk rating is applied to each identified risk, which is filtered by risk category and sub-category, linked with the risk universe. The risk rating is linked to a scoring scheme, rating the risks against materiality, thus defining which risks are considered business-material.

All risks identified as material are then quantitatively assessed. If the risk category is included in the regulators model (the standard formula), then the stress defined within the standard formula is used to conduct the assessment. For material risks not included in the standard formula a stress has been defined on a 1 in 200 basis.

The overall solvency needs assessment is undertaken by applying a correlation matrix that includes both risks within the standard formula and the other material risks.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

##### **B.4.2. ORSA GOVERNANCE**

The Group Board, through the Risk and Compliance Committee, is ultimately responsible for the oversight of the ORSA. This includes the approval of the ORSA policy, the ORSA Internal Report, and the ORSA disclosure.

The Group Board steers how the assessment is to be performed and challenges the results. In order to meet its oversight responsibilities the Risk and Compliance Committee reviews some key reports as shown in the table below.

<b>Report Title</b>	<b>Report Description</b>
Quarterly risk report	A report that provides information on the risk profile of BHSF, it highlights changes in risk status / emerging risks and provides an assessment of the current materiality of the risk.
Internal ORSA report	Results and conclusions of the ORSA activity, including an annualised risk report. This forms the ORSA disclosure, which is submitted to the regulator.
ORSA disclosure	<p>Disclosure and information including:</p> <ul style="list-style-type: none"><li>(a) The qualitative and quantitative results of the own risk and solvency assessment process and the conclusions drawn from those results;</li><li>(b) The methods and main assumptions used in the own risk and solvency assessment process;</li><li>(c) Information on the company's overall solvency needs and a comparison between those solvency needs, the regulatory capital requirements and the company's own funds;</li><li>(d) Qualitative risk profile of the business, along with identified emerging risks, utilising the established processes;</li><li>(e) A qualitative assessment of weaknesses in the business model, along with assessment of the company's business strategy;</li><li>(f) Continuous monitoring of solvency position and contingency planning activities. The results will be summarised retrospectively in each ORSA Report, indicating any actions taken in the event of deterioration of the solvency position during the year.</li></ul> <p>This will be constructed from the ORSA policy, and the ORSA internal report.</p>

##### **B.4.3. BUSINESS DECISION MAKING & OVERALL SOLVENCY NEEDS**

On an annual basis, the business strategy is reviewed and business trends and emerging risks are considered. A product strategy and an investment strategy are devised, stipulating

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

targets and discretionary limits for investments management and product management respectively.

The discretionary limits and tolerances are tested according to the standard formula model and the ORSA model to ensure compliance with overall solvency needs and with risk appetite and SCR. The Group Board should be satisfied that compliance is met prior to approving tolerance and discretionary limits. If no compliance is assured the discretionary limits are reviewed.

During day to day business operations management will act according to the tolerance/ discretionary limits defined. In the event that management wishes to deviate from the tolerance limits, analysis using the SCR and the ORSA model will be carried out to ensure that this action does not cause a non-compliance with the defined board's risk appetite.

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

**B.5. INTERNAL CONTROL SYSTEM**

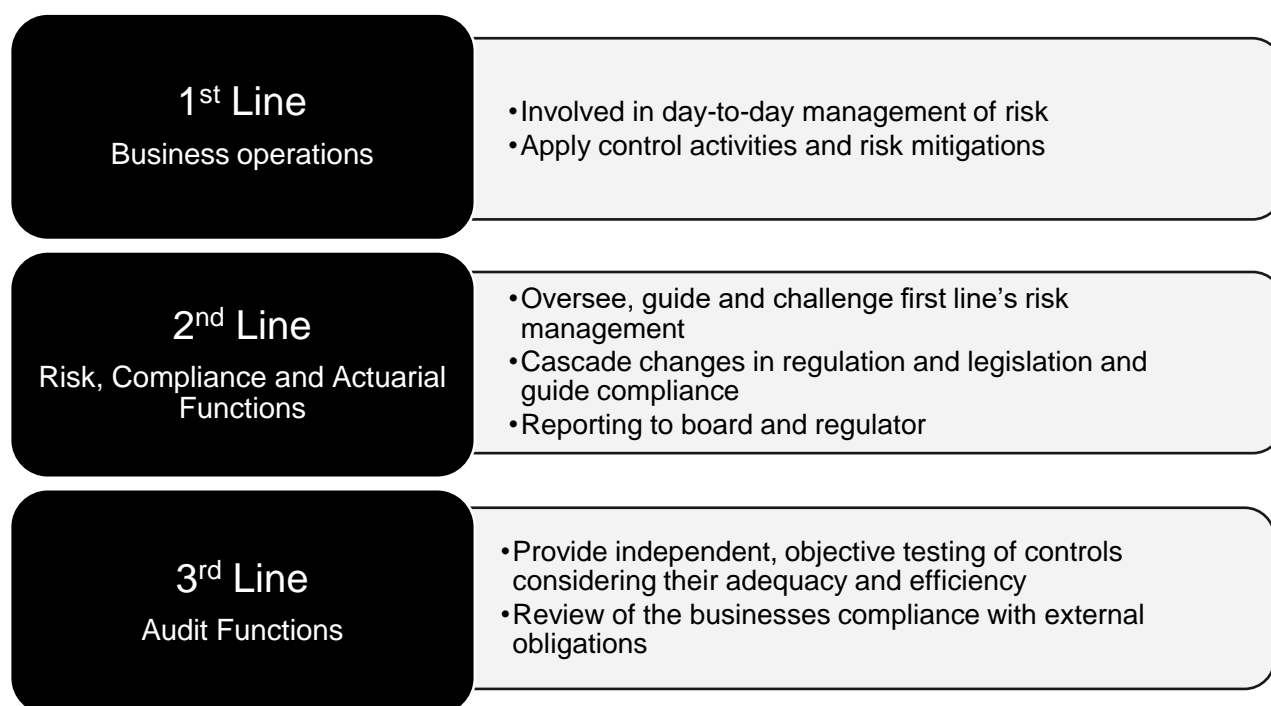
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**B.5.1. OVERVIEW OF INTERNAL CONTROL SYSTEM**

The corporate governance framework is supported by a Group-wide internal control system.

The internal control system facilitates the achievement of BHSF Group's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws regulations and policies.

It is designed according to the three lines of defence model. It is articulated within policies for the control functions which articulate the responsibilities, reporting lines, and the activities and approach taken for each of the control functions. The three lines of defence model ensures appropriate independence and objectivity in internal control activity. In practice this means that BHSF Group operates a system of internal controls throughout all levels of the business. Everyone within the organisation has responsibility for internal control.



Commensurate with the nature, scale and complexity of the risks inherent in the business of BHSF Group, the finance function undertakes both first line and second line activities by fulfilling the role of actuarial function.

However, where a first line activity is undertaken by these functions, either independent verification is obtained regarding the activity concerned or the first line activities and the second line activities are segregated within the function as far as possible.



**SECTION B: SYSTEM OF GOVERNANCE (continued)**

**B.5.2. REPORTING LINES AND INDEPENDENCE**

BHSF Group incorporates the control functions and the associated reporting lines into the organisational structure, ensuring that each function is free from influences that may compromise their ability to undertake duties in an objective, fair and independent manner.

Each function operates under the ultimate responsibility of, and reports to, the Board.

Each individual performing a control function is able to communicate on their own initiative with any staff member and is given the necessary authority, resources and expertise as well as unrestricted access to all relevant information necessary to carry out their responsibilities.

Each individual performing a function reports any major problem in their area of responsibility to the Group Board.

**B.5.3. RISK MANAGEMENT FUNCTION**

The Head of Risk has a number of key accountabilities, including but not limited to:

- (a) Oversight of the ERMF and its application within the business;
- (b) Develops the Risk Management Policy and keeps it up to date;
- (c) Co-Ordinates the risk management and internal control activities;
- (d) Ensures that risks are formally evaluated and appropriately categorised;
- (e) Reports on the current risk profile to the Risk and Compliance Committee and to the Board;
- (f) Presents an independent opinion on all matters relating to risk;
- (g) Escalates any appropriate/required matters to Management and/or the Board (direct access to the Board is maintained);
- (h) Provides a 'face' for risk management within the business; and,
- (i) Provides ongoing risk training to the business.

In addition the Head of Risk is responsible for assessing the performance of the firm's ORSA and for reviewing, on an annual basis, the adequacy of the risk management policies.

In order to meet the accountabilities defined above, the Head of Risk undertakes all of the following tasks:

- (a) Close liaison with all senior management and directors on at least a quarterly basis;
- (b) Close co-operation with finance and in particular the owner of capital modelling;
- (c) Liaison with independent non-executive directors, the Chairman of the board and the Chairman of the Risk and Compliance Committee;
- (d) Attendance at all risk related committee meetings; and
- (e) Provision of training and education for risk related matters as appropriate.

**B.5.4. COMPLIANCE FUNCTION**

The Head of Compliance function has responsibility for ensuring the Group is in compliance with existing and new regulations (FCA and PRA). The Head of Compliance oversees the compliance program, functioning as an independent and objective body that reviews and evaluates compliance issues/concerns within the BHSF Group.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

Key accountabilities include:

- (i) Advising the BHSF Group Board on compliance with regulations applicable to BHSF Group
- (ii) Assessment of the possible impact of any changes in the regulatory environment on the operations of the Group, and
- (iii) Identification and assessment of compliance risk

In order to meet the accountabilities defined above the compliance function undertakes all of the following tasks:

- (a) Establishing a compliance plan detailing regulatory changes and activities and resources needed to address them given their applicability to BHSF Group
- (b) Conducting an assessment of the adequacy of the measures adopted by the company to address new regulation in order to prevent non-compliance
- (c) Reviewing regulatory publications in order to identify any new or changing regulations and their applicability to BHSF Group
- (d) Identification of potential areas of compliance vulnerability and risk; development and implementation of corrective action plans for resolution of problematic issues, and provides general guidance on how to avoid or deal with similar situations in the future
- (e) Reporting quarterly to the risk and compliance committee detailing progress on the compliance plan, new compliance risks, and a compliance risk assessment
- (f) Monitoring areas of regulatory vulnerability including, but not limited to, financial promotions, new product literature, sales, and complaints
- (g) Completion of regulatory returns including: retail mediation and activities return; close links return; controllers report
- (h) Collaboration with other departments to direct compliance issues to appropriate existing channels for investigation and resolution
- (i) Co-ordinating compliance activity across other functions as appropriate
- (j) Responding to alleged breaches of regulations or legislation by evaluating or recommending the initiation of investigative procedures

#### **B.5.5. COMPANY SECRETARIAL FUNCTION**

The objective of the company secretarial function is to provide compliant, cohesive, effective and efficient company secretarial services ensuring compliance with company law.

It achieves this by bringing a disciplined approach to:

- Corporate governance information administration – scheduling meetings, informing attendees, preparing agendas, collating and distributing papers and taking minutes for board meetings, board committees and company conferences
- company record maintenance and notifications – drafting forms required for company formation, company constitution and special resolutions, and lodging required forms with Companies House, maintaining statutory books, including registers of members, directors and secretaries
- Companies House communication – dealing with correspondence from the Registrar, collating information and writing reports as necessary

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

- Liaison with internal auditors – managing audit timetables and overseeing responses to audit report actions.
- Data Protection Officer – fulfilling the necessary responsibilities under Data Protection legislation.

**B.6. INTERNAL AUDIT FUNCTION**

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Internal audit provides independent objective assurance designed to review the effectiveness of the internal control framework and thus encourage improvements in BHSF Group's operations. It helps BHSF Group to achieve its objectives by bringing a disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.

In line with a proportional approach the BHSF Group Board has determined to use an independent external supplier of internal audit services.

This ensures that:

- (a) The internal audit function is objective and independent from the operational functions and that no conflict of interest arises
- (b) The BHSF Group will benefit from the service provider's expertise and support framework, ensuring that, resource, technical expertise and knowledge of best practice developments is available to the Group
- (c) The costs of maintaining the audit function are appropriate with respect to the nature, scale and complexity of the risks inherent in the company

The internal audit service supplier is accountable for:

- (i) Establishing an audit plan in consultation with the company
- (ii) Implementing and maintaining the audit plan
- (iii) Issuing recommendations to the Group's Audit Committee
- (iv) Monitoring compliance with any recommendations agreed with the Audit Committee
- (v) Reviewing the adequacy of the effectiveness of the internal control system and the system of governance
- (vi) Providing a written report annually regarding all the activities it has carried out over the previous twelve month period, a summary of results of any testing carried out and compliance with any recommendations resulting from weakness identified through the testing activity, a statement regarding the overall effectiveness of the internal control environment, and
- (vii) Helping the Audit Committee and BHSF staff stay informed of regulatory and governance best practice developments.

In establishing and agreeing its audit plan the internal audit function must –

- (a) Take a risk-based approach in deciding its priorities through liaison with the Head of Risk

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

- (b) Take into account the system of governance, the internal control system and the risk management system of the Group through liaison with the Executive
- (c) Take into account all changes in the Group that have occurred in the last 12 months
- (d) Establish all the auditing activities that will be undertaken in the next twelve months
- (e) Report and agree the plan with the Audit Committee

Periodically additional audit activity may be required and this must be agreed with the Audit Committee and Board prior to implementation.

#### **B.7. ACTUARIAL FUNCTION**

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In line with a proportional approach the BHSF Group Board has determined to assign actuarial responsibilities and accountabilities to the finance function. In so doing the BHSF Group Board has ensured that the actuarial activities are carried out by individuals who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of BHSF Group, and are able to demonstrate their relevant experience with applicable professional and other standards.

Key actuarial accountabilities of the finance function include:

- (i) Valuation of technical provisions
- (ii) Review of the reliability and adequacy of the valuation of the technical provisions
- (iii) Determination of capital requirements through application of the standard formula and any additional modelling required by the ORSA
- (iv) Determination of the adequacy of the technical provisions
- (v) Review of the underwriting/ insurance risk policy and reinsurance arrangements

The actuarial activities contribute to the effective implementation of the company's risk management system through ensuring the accuracy, timeliness and completeness of the quantification of risks assessed through the ORSA process, monitoring overall capital adequacy and providing an opinion of the impact of any significant decisions on the capital position of BHSF.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

##### **B.8. OUTSOURCING**

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###### **B.8.1. OUTSOURCING OF CRITICAL FUNCTIONS**

BHSF Group maintains a network of third parties with whom it collaborates to deliver its products and services. Examples of outsourcing arrangements within BHSF Group include:

- Investment management – investment management is undertaken by UBS according to a defined investment mandate
- Internal audit – internal audit is managed by RSM according to an agreed charter
- Information technology services – many IT services and functions are outsourced including certain aspects of disaster recovery and information security
- Product and service suppliers – salary sacrifice scheme counterparties; Human Resources support counterparties; Occupational Health Services counterparties; network clinicians

Further to these external outsourcing arrangements BHSF operating companies frequently outsource activity to another entity within the Group. Central services such as finance, information technology, and human resources are provided by BHSF Management Services Limited to all companies in the Group.

The directors of BHSF Group recognise that in order to ensure continuing quality of service it is essential that both internal and external outsourcing relationships are entered into, managed and transitioned from in an adequately controlled manner.

###### **B.8.2. OUTSOURCING POLICY**

###### **B.8.2.1. POLICY OVERVIEW**

The outsourcing policy applies to all critical or important outsourcing relationships- that is all relationships that can materially impact either:

- (i) the quality and/or continuity of business operations;
- (ii) the system of governance of BHSF Group; or
- (iii) the financial performance of BHSF Group.

###### **B.8.2.2. OUTSOURCING OBJECTIVES**

- BHSF Group aims to ensure excellence of service from all outsourcers and all suppliers.
- BHSF Group aims to ensure counterparties deliver a high quality timely service and meet their service level agreements

###### **B.8.2.3. OUTSOURCING PRUDENT PERSON PRINCIPLES**

- 1 With regard to third party risk, BHSF Group and its subsidiaries will not undertake third party relationships in such a way as to:
  - (a) Undermine continuous and satisfactory service to policyholders;
  - (b) Materially impair the quality of the system of governance of the Group;
  - (c) Unduly increase operational risk;

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**SECTION B: SYSTEM OF GOVERNANCE (continued)**

- (d) Impair the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations; or
  - (e) Materially impair the quality of internal control.
- 2 Outsourcing will not be undertaken in a manner that removes the responsibility for discharging obligations under the regulatory system. In particular:
- (a) the outsourcing must not result in the delegation by senior personnel of their responsibility;
  - (b) the relationship and obligations of BHSF Group towards its clients under the regulatory system must not be altered;
  - (c) the conditions with which the firm must comply in order to be authorised, and to remain so, must not be undermined; and
  - (d) none of the other conditions subject to which the firm's authorisation was granted must be removed or modified.
- 3 All outsourcing/supplier arrangements are made with UK firms or UK divisions of global firms where UK law is applicable.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION B: SYSTEM OF GOVERNANCE (continued)**

##### **B.9. ASSESSMENT OF ADEQUACY OF SYSTEM OF GOVERNANCE**

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BHSF Limited, the only insurance company in the BHSF Group is a category 5 firm. That is, it is an insurer whose size, interconnectedness, complexity and business type give the company almost no capacity individually to cause disruption to the UK financial system by failing or by carrying on the company's business in an unsafe manner.

BHSF Group has no capacity to cause disruption to the interests of a substantial number of policyholders. However BHSF Group recognizes that where difficulties across the whole health cash plan sector materialize it may have the potential to generate some disruption.

As such the board of BHSF Group is committed to the adoption of governance best practice and continuing enhancement of its system of governance. Consequentially, on an annual basis the BHSF Group Board oversees an assessment of the adequacy of its governance system (including the risk management system and the internal control system).

During 2018, improvements to governance arrangements have continued. These include:

- Splitting line one and line two responsibilities between technical underwriting and compliance departments
- Creating an executive committee with clear delegated responsibilities and powers
- Updating the Group's Corporate Governance Handbook

Despite these improvements, the Group remains committed to further improving governance in the coming 12 months.

**SECTION C: RISK PROFILE**

**C.1. OWN RISK AND SOLVENCY ASSESSMENT METHODOLOGY**

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**C.1.1. CHANGES TO METHODOLOGY OVER REPORTING PERIOD**

The 2018 methodology used to determine the own solvency needs deviates from the standard formula model, in so far as (a) it enables a more granular quantification of operational risks and (b) separates out employee pension risk. Stress Tests

Standard formula stresses are used where the company considers the methodology to be appropriate for BHSF Group's business model. In addition to the standard formula stresses, other stresses are used for risks not covered by the regulator's formula but which are of relevance to BHSF Group's business model:

- **Employee pension scheme**

From the perspective of BHSF Limited and the group as a whole, the standard formula only partially covers the risk of a shortfall in the defined benefit employee pension scheme. This is accounted for within the market risk module and only considers the interest rate risk and market risks associated with the scheme. It does not consider longevity risk associated with the pension scheme. The standard formula does not consider any risks associated with the defined contribution scheme however these are immaterial.

- **Operational risk**

From the perspective of the BHSF Group as a whole, with its diverse set of product offerings, the standard formula provides only a crude assessment of operational risks and a more refined set of stresses is appropriate for the business model. The quantitative risk assessment of operational risk has been undertaken by describing worst case operational scenarios which would result in a catastrophic shock to the business's operations. This contrasts with the methodology for determining exposure to operational risks using the standard formula which is determined considering only the volume of insurance business that flows through the company.

**C.1.2. RELATIONSHIP BETWEEN RISKS**

Risk assessment and the determination of own solvency needs takes account of the relationship between the principal risks. The relationship between principle risks can also be called the correlation between principle risks. BHSF Group applies the same correlations as the standard formula but makes allowances for risks unrecognised by the standard formula such as liquidity risk and pension risk.

**C.1.3. SENSITIVITY ANALYSIS**

Sensitivity analysis is based upon input variables impacting the own risk and solvency assessment and determining the own risk and solvency assessment vulnerability to changes in these variables.

In order to ensure continued compliance with solvency capital requirement BHSF Group have conducted sensitivity analysis over two key assumptions. One is the assumption of sales targets and profitability in the BHSF OH division. The second is the assumption of no Insurance Premium Tax increases or price increases or new sales volumes sufficient to offset IPT increase within the health cash plan business.



## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION C: RISK PROFILE (continued)**

The capital model is run adjusting each of these key assumptions to the capital model to determine the vulnerability of the model to uncertainty in its inputs. The sensitivity analysis records the range of possible outcomes.

The outcome was projected continued compliance with the SCR and Own Solvency Needs over the business planning period.

##### **C.1.4. REVERSE STRESS TESTS**

To ensure that BHSF Group's business plan is as robust as possible BHSF Group undertakes reverse stress testing.

Reverse stress testing identifies events where the prospective management actions are not sufficient to prevent failure or the inability to transact regular business under normal conditions. The purpose of reverse stress testing is to develop contingency plans in the occurrence of such an event.

Two events (stressed scenarios have been defined in a manner that is appropriate for BHSF's business model and the business environment, both have been agreed by the Board:

- The customer proposition becomes unattractive and, as a consequence, sales of our product range dries up and renewals significantly decrease
- Surplus capital (capital in excess of Solvency Capital Requirements) of BHSF is wiped out

For each of the stressed scenarios defined, the business considers:

- (a) What sequence of events would lead to such a scenario?
- (b) How likely is the scenario to happen?
- (c) What could the business do today to avoid such a future?

**SECTION C: RISK PROFILE (continued)**

**C.2. MATERIAL RISKS AND MATERIAL CHANGES OVER THE REPORTING PERIOD**

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Over the reporting period and progressing into 2019, the most significant threats to the business model are:

- a) **Reduction in the value of health cash plans** – driven largely by potential increases in Insurance Premium Tax (IPT), although it's acknowledged that no such increase has been seen in the 2018 budget. In addition, there is a concentration risk of Health Cash Plan books of business emanating from a historic business strategy. The current business strategy aims to reduce this concentration risk as far as possible.
- b) **Continued investment market volatility** – at the time of writing, no Brexit deal has been formalised and the prospect of a 'hard Brexit' is becoming more likely. In addition, there is increased uncertainty over the future of the UK Government, with potential for a General Election in the future. This uncertainty is driving volatility within the investment portfolio(s). Furthermore, a global trade war between China and America, with an agreement to halt new trade tariffs for 90 days currently in place is adding to the uncertainty within the markets. Previous suggestions had been a near £157bn increase on tariffs of Chinese goods with effect from January 1<sup>st</sup> (2019).
- c) **An ever present and continually increasing cyber threat** – GDPR legislation is now in force and the significant increase in maximum penalties pose a threat to business solvency. This is especially pertinent, given the special category data that is held within BHSF Occupational Health (OH) Limited. However, owing to the susceptibility of such data, BHSF Group has a purposefully robust DPA framework, with 24/7 monitoring of potential breaches and a clear understanding of what needs to be reported to ICO and when. Furthermore, a specialist Information Assurance Analyst has been retained as FTE and BHSF Group has been awarded ISO27001, as a clear demonstration of progress made in this area.
- d) **A failure of the Occupational Health (OH) business to make a profit** – the Occupational Health arm of BHSF Group has seen a number of acquisitions of smaller, niche SME OH businesses over the past few years. Inevitably, with any form of acquisition comes a period of reorganisation and settling. The OH business is currently growing, but it is not as established within the BHSF Group of operating companies as Health Cash Plans (BHSF Limited) and Employee Benefits (BHSF Employee Benefits Limited). Hence, a level of prudent scrutiny is maintained over its progress and BHSF OH is purposefully segregated from Limited, to ensure no contagion risk.
- e) **A potential reputational/social media risk event** – the current business strategy for BHSF Group, aims to provide a modernisation of the overall business process, including a customer-centric approach. Naturally, in order to reach our current and prospective policyholders, BHSF Group must reach out in a medium that resonates with modern society, utilising the likes of Twitter, Facebook, LinkedIn, etc. Exposure to social media can provide huge rewards, but also presents further risk elements. BHSF Group has recently aligned with a PR Specialist within the Health and Wellbeing sector, able to conduct proactive and reactive PR. In addition, an experienced Director of Marketing has been brought on at Executive Management level.
- f) **Failure of BHSF Group to meet strategic objectives** – BHSF Limited is currently susceptible to fluctuations in IPT and claims ratio increases, owing to its

**SECTION C: RISK PROFILE (continued)**

concentration risk emanating from the health cash plan (HCP) book(s) of business. It has been recognised that the HCP market can be very price sensitive, resulting in any price increases (as a result of IPT increase) causing a loss of customer base, or an increase in the expected claims ratio leading to a stretching of the already thin profit margins. With reference to the non-insurance entities, a number of ambitious sales targets and similar low profit margins in the employee benefits and occupational health businesses, could begin to cause this risk to crystallise.

Such susceptibility of the business model, as a whole, has been recognised as a key risk and the overall aim of the strategic plan is to provide a modernisation programme for the Group, responding to the threats that are outlined above and in the Forward Looking Assessment of Own Risk (FLAOR) performed as part of the ORSA. A large investment is required to bring the modernisation programme to fruition and it is expected that the modernisation, in tune with a number of other key priorities will provide a strong foundation for the future.

Based upon the identified key risks to the business, outlined above, the business plan(s) will address these threats through a review of the product mix, modernisation, effective cost control, effective and efficient underwriting controls, and a continued focus on corporate governance. Furthermore, the contingency plans established through reverse stress testing and scenario analysis, will ensure the ongoing viability of the business in a worst-case scenario.

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION C: RISK PROFILE (continued)****C.3. ASSESSMENT RESULTS****C.3.1. BHSF GROUP RESULTS**

The tables presented below provide an overview of the results, for BHSF Group, of the own solvency and risk assessment and the solvency capital requirements calculations over the reporting period.

	<b>2017</b>		<b>2018</b>		
	<b>Annual</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Annual</b>
<b>Solvency Margin Group (% SCR)</b>	217%	213%	205%	198%	193%
<b>Solvency Margin Group (% Own Solvency Needs)</b>	200%	198%	190%	183%	176%

The decrease in solvency ratio during the period is largely the result of the operational and investment losses outlined in Section A. Plans have been put in place to improve performance in 2019 and beyond.

**C.3.2. BHSF LIMITED RESULTS**

The tables presented below provide an overview of the results, for BHSF Limited, of the own solvency and risk assessment and the solvency capital requirements calculations over the reporting period.

	<b>2017</b>		<b>2018</b>		
	<b>Annual</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Annual</b>
<b>Solvency Margin BHSF Limited (% SCR)</b>	189%	183%	180%	175%	173%
<b>Solvency Margin BHSF Limited (% Own Solvency Needs)</b>	174%	169%	167%	161%	157%

The decrease in solvency ratio during the period is largely the result of the operational and investment losses outlined in Section A. Plans have been put in place to improve performance in 2019 and beyond.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION C: RISK PROFILE (continued)

#### C.4. RISK ASSESSMENT INFORMATION BY RISK CATEGORY

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##### C.4.1. HEALTH UNDERWRITING RISK

###### C.4.1.1. OVERVIEW

BHSF Limited, a subsidiary of the BHSF Group, underwrites contracts for three main medical expense product lines:

- Health cash plans, where policyholders are reimbursed for all or part of their spend on a variety of healthcare needs;
- Personal accident insurance, where policyholders are given cash settlement on the event of various types of accidental injury; and
- Plan4Life cancer cover, where policyholders are given cash settlement on the event of diagnosis of various types of cancer.

In conducting this line of business BHSF Group is exposed to health underwriting risks. These are risks arising from the underwriting of health insurance obligations, whether it is pursued on a similar technical basis to that of life insurance or not, following from both the perils covered and the processes used in the conduct of business.

###### C.4.1.2. QUALITATIVE ASSESSMENT

Risk category	Description of exposure
<b>Premium and Reserving Risk</b>	Premium and reserving risk is driven by product volumes, claims expenses and administration expenses. All of BHSF Group's insurance business is relatively short term. Individual and group insurance policies are run on a renewal basis (which may be monthly, or annually). Group Insurance policies may have a fixed price for up to three years.
<b>Lapse Risk</b>	BHSF Group is exposed to lapse risk through cancellations of individual or group insurance policies. BHSF Group distributes many individual policies through agreements with corporate clients. Whilst lapses to policies would in general have an overall trend for the industry, peaks in lapse rate may occur due to a termination of a relationship with a corporate client. That is one corporate client may have multiple employees who have a contract of insurance with BHSF Group. However the costs to the business directly related to lapses are negligible so this risk is immaterial.
<b>Mass accident</b>	Mass accident exposure relates to the exposure to insurance risk following an accident that effects a proportion of the UK population. Mass accident risk therefore affects policies which cover medical expenses after an accident. BHSF Group distributes personal accident insurance which provides compensation in the event of an accident either as part of a standalone policy or as part as a tailored for health proposition. Consequently, a large proportion of BHSF Group's insurance portfolio is affected by mass accident risk.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION C: RISK PROFILE (continued)

Risk category	Description of exposure
<b>Accident concentration</b>	Accident concentration risk relates to the exposure to insurance risk following an accident within one building or within one company by the accident resulting in either death, disability or injury. The exposure to this risk depends on concentrations of personal accident insurance cover holders in one vicinity. BHSF Limited has a large number of arrangements with corporate clients who have numerous employees covered by personal accident insurance. Some of these corporate clients have several sites over which its employees are spread. Geographical concentration of policyholders is in the Midlands which has the largest accident concentration in the country.
<b>Pandemic</b>	A specific pandemic exclusion now exists within the HCP policies, but the majority of policies have not yet renewed on to the new terms and conditions. Hence, they still carry pandemic risk exposure. Pandemic risk relates to the exposure to insurance risk following and infectious disease in the UK. This affects medical expense policies underwritten by BHSF Limited that provide coverage for infectious diseases. As BHSF Limited has no exclusions for infectious diseases in its policies this includes all the health cash plan insurance policies.

#### C.4.1.3. PRUDENT PERSON PRINCIPLES

Only products where BHSF Limited holds sufficient claims experience (or can obtain sufficient rating information) for underwriting should be underwritten in house, unless appropriate levels of reinsurance can be sourced.

Products will be priced profitably within discretionary pricing limits. This includes the pricing of assembled bespoke customer propositions but recognising that tactical pricing decisions may be made as necessary.

New books of business will only be accepted if the risks can be fully understood. If the book of business is material and will significantly alter the capital requirement of BHSF Limited, then the book of business will only be accepted following a risk assessment and board approval.

Any material change to an existing product, such as an additional benefit underwritten in house, or a ratings change of a benefit will require board approval and a risk assessment prior to implementation of the change.

A change to reinsurance arrangements either by transferring provider or increasing or decreasing the proportion of the risk reinsured is subject to board approval and must only be undertaken if the risks are fully understood and a risk assessment has taken place.

No reinsurance business will be underwritten.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

#### FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION C: RISK PROFILE (continued)

##### C.4.1.4. MITIGATION AND CONTROL

In order to manage the underwriting risk within acceptable levels BHSF Group operates a number of mitigation techniques.

**Product selection:** Desired business lines have been identified. No life insurance or general insurance is underwritten. New insurance products are selected for development which are consistent with the Group's vision.

**Reserving:** Claims, lapse and profitability data is analysed on a regular basis. This is used to validate the reserving assumptions. Technical provisions calculations are undertaken to calculate the full extent of the insurance liabilities.

**Reinsurance:** Where the company does not wish to hold the full liability for an underwritten product, reinsurance arrangements are established with a reputable reinsurer. Alternatively, an insurance product may be sourced from an alternative provider and white-labelled. Personal accident and the cancer cover product, for example, are reinsured with Beazley by 70%.

**Pricing:** An actuarial quote engine is used to price many products, which has recently undergone a full review by Grant Thornton as part of a wider Underwriting Project. Further senior management involvement in other pricing decisions is deployed, where necessary. The profitability of products is monitored in order to ensure that products do not become unviable and an appropriate level of surplus is generated to maintain solvency for the business. A review of products pricing is undertaken at least three-yearly. Complex underwriting cases are manually underwritten, within defined constraints. For existing policies, profitability and premium data are monitored closely, on at least a quarterly basis to ensure that changes in the pricing basis can be undertaken, where necessary. Full profitability testing is undertaken quarterly and pricing assumptions based on claims experience, lapse experience and product take up reviewed for appropriateness is undertaken at least three yearly and more regularly if appropriate.

**Claims management:** All claims over a defined threshold are audited to validate eligibility. Any ambiguous claim is referred to management for review. Controls are in place for claims settlements to ensure they are accurate and timely.

**Experience within the market:** BHSF has a long history of underwriting Health Cash Plans and has over 220 variations of the underlying product, all of which are reviewed for profitability on a regular basis. The underwriting function is well versed in the terms and conditions of the product suite, along with the pricing sensitivities involved.

**Pandemic exclusion:** All Health Cash Plans now have a specific Pandemic Exclusion. Naturally, this does not extend to Health Cash Plans that continue to run, prior to the exclusion coming into force, but will apply at renewal. This goes a long way to mitigating the exposure.

##### C.4.1.5. MOVEMENTS OVER THE REPORTING PERIOD

Health underwriting risk increased slightly over the reporting period, owing to insurance income running slightly ahead of budget for much of the year. Specifically, Premium/Reserve

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

#### FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION C: RISK PROFILE (continued)

risk has increased due to an increase in premiums and claims over the course of the year, as well as an expectation of future premium growth.

##### C.4.2. MARKET RISK

###### C.4.2.1. OVERVIEW

In the provision of its services BHSF Group has a number of schemes whose assets require management.

These include: insurance scheme assets and the defined benefits employee pension scheme assets. The defined benefits employee pension scheme is the responsibility of the Trustees and the employee pension funds are ring fenced. In management of its assets BHSF Group is exposed to risks of volatility in the investment market.

###### C.4.2.2. QUALITATIVE ASSESSMENT

Risk category	Description of exposure
<b>Concentration</b>	Market concentration risk exposure relates to risks stemming from either a lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers. The exposure depends on the exposure to each counterparty, weighted against a credit quality factor.
<b>Interest rate</b>	Interest rate risk is the risk that asset fair values or future cash flows will fluctuate as a result of changes to interest rates. Interest rate risk therefore affects the value of the Group's investment in corporate and government bonds
<b>Equity risk</b>	Equity risk is the risk that asset fair values will fluctuate due to changes in equity prices. The exposure to equity risk depends on the quality of the equities and the value of the equity portfolio
<b>Property</b>	The BHSF property portfolio consists of a farm and land in Wales, and Gamgee House Head Office, based in Birmingham. BHSF would expect to be able to sell off pieces of land for development, providing an additional source of capital, if required.
<b>Spread</b>	Spread risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. Spread risk therefore affects the value of the Group's investment in corporate bonds.
<b>Currency</b>	Currency risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates. The Group's exposure to currency risks is restricted to foreign currency assets that are part of collective investment funds.



## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION C: RISK PROFILE (continued)**

##### **C.4.2.3. PRUDENT PERSON PRINCIPLES**

BHSF aims to maintain a diversified investment portfolio in order to smooth risks and manage short term fluctuations in the investment market. In order to ensure that the risks associated to investment activity is adequately managed the following principals have been established:

- All investments must be in assets that are traded on a regulated market, although exceptions are permitted at prudent levels.
- Only invest in assets and instruments the risks of which BHSF Group can properly identify, measure, monitor, manage, control and report and appropriately take into account in the assessment of BHSF Group Limited's overall solvency needs.
- All assets of the firm must be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio of assets of the firm as a whole and localised such as to ensure their availability.
- Assets held to cover the technical provisions must be invested in a manner appropriate to the nature and duration of the insurance liabilities.
- In the case of a conflict of interest the firm must procure that any third party that manages its assets will ensure that the investment of assets is made in the best interests of sustainability of the company.
- Investments must be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer, group of undertakings or geographical area, or excessive accumulation of risk in the portfolio as a whole.
- Investments in assets issued by the same issuer or issuers belonging to the same group must not expose the firm to excessive risk concentration.
- All investments must be in assets that can be readily and reliably valued, except as are permitted at prudent levels.

##### **C.4.2.4. MITIGATION AND CONTROL**

In order to manage the market risk within acceptable levels BHSF Group operates a number of mitigation techniques.

**Experienced investment manager:** BHSF Limited uses a third party, UBS, to manage all of its assets. UBS is a global firm providing financial services in over 50 countries. UBS invests insurance scheme assets in a manner that is consistent with BHSF Limited's market risk policy. On an annual basis, BHSF reviews a service organisation control (SOC) report regarding the adequacy of UBS controls for investment management which is prepared by an external auditor.

**Application of prudent principles for investment:** Investments are managed according to the prudent person principle. In particular: (a) Investments are properly diversified in such a way as to avoid excessive accumulation of risk in the portfolio as a whole; (b) Assets are held in easily and frequently-traded shares and bonds which is appropriate to the short-term nature and duration of the insurance liabilities; and, (c) Investments in assets issued by the same issuer or issuers belonging to the same group do not expose the firm to excessive risk concentration.

**Investment strategy:** Constraints to investments in terms of asset mix, asset concentrations, and credit ratings of investment counterparties have been defined. A

**SECTION C: RISK PROFILE (continued)**

benchmarking report and a sector report is reviewed by the board to ensure that the investment strategy is appropriate. Any changes to the investment strategy have to be reviewed and approved by the board. A discretionary limits agreement is agreed with UBS, which is reviewed annually.

**Investment limits:** Limits are set within the market risk policy that prevent excessive exposure to investment risks. In particular, the Group's market risk policy stipulates that:

- A maximum of 10% of the investment portfolio to be in any one equity sector, except by agreement with the company.
- Individual investments should not exceed the following percentage of the equity portfolio without prior agreement of the board:
  - Individual equity holdings 7%
  - Individual fund holdings 7%
  - Individual corporate bond holdings 7%
  - British government debt 10% (any one bond)
- No corporate bond is to be held directly which does not have investment grade credit rating.
- No direct investment in assets which are not admitted to trading in a regulated market.

**Use of derivatives and other hedging instruments:** The board has no appetite for direct derivative counterparties, although it recognises that some hedging arrangements do exist within collective investment funds, for instance to hedge a collection of foreign-denominated bonds back to sterling.

**Transaction monitoring:** The Chief Finance Officer reviews disposals and asks the investment manager about any significant losses. The Chief Finance Officer reviews unrealised gains/losses and ensures that they are in line with market movements. The Chief Finance Officer reviews investment income and ensures the reasons for variation from budget are understood.

**C.4.2.5. MOVEMENTS OVER THE REPORTING PERIOD**

Market risk has reduced marginally during the reporting period, as a result of record high investment values at 31/12/17 not being sustained. There have been fluctuations during the year due to the rising and falling of the markets, as well as differences in the quality of data there is to work with for quarterly returns, compared with annual returns where the deadlines are longer.

Specifically, Interest rate risk has fallen over the course of the year due to increasing interest rates. Increasing interest rates lower bond prices and therefore give a lower base value on which interest rate 'shocks' are applied in the solvency calculation. Equity risk has fallen over the course of the year, with some intervening fluctuations, in line with movements in UK equity markets. Property risk is unchanged over the course of the year as we have not changed any property valuations. Spread risk has remained relatively stable over the course of the year, with a spike in Q2 owing to lack of data at that point in time. Currency risk has increased slightly the period as a result of more collective investment funds containing foreign currency items being held at the end of Q3 as compared to the year end.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

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#### SECTION C: RISK PROFILE (continued)

Concentration risk has increased over the period partly because less granular data at quarter ends compared to year-ends can lead to apparent (but not true) concentration in the portfolio. It is also the case that as the markets fall, assets whose values have fallen less than the markets in general can drift into the scope of concentration risk calculations without any change being made to investment allocations or strategy.

#### C.4.3. COUNTERPARTY DEFAULT RISK

##### C.4.3.1. OVERVIEW

In the provision of its services BHSF Group is required to manage relationships with counterparties. BHSF Group has the following counterparty relationships in place to carry out its operations:

- Reinsurance relationships: BHSF Limited has three main insurance lines: Health Cash plans, Personal accident insurance, and Plan4Life cancer cover. It mitigates part of the risk for personal accident insurance and cancer cover by placing reinsurance with a single reinsurer (Beazley).
- Investment counterparties: BHSF Group invests its capital within financial instruments, managed through UBS.
- Banking counterparties: BHSF holds its cash within major UK banks.
- Individual policyholders: BHSF holds contractual arrangements with individual policyholders who have obligations to make payment for their policies.
- Corporate policyholders: BHSF holds contractual arrangements with corporate policyholders. The corporate policyholder has an obligation to make payment for the corporate policy and inform BHSF if there are changes to the individuals insured under the name of the policy.
- Insurance counterparties: BHSF brokers white-labelled products developed by other insurance providers. The insurance counterparties have an obligation to service the product once sold through the BHSF sales team. The insurance counterparties have an obligation to make payment to BHSF in terms of commission for the sale.
- Other suppliers: BHSF sells some non-insurance products on a standalone basis and within some of its health cash plans. These include helpline services and health risk assessments. The providers of the non-insurance products have an obligation to provide the service, while BHSF has an obligation to pay for their use.

In having counterparty relationships BHSF Group is exposed to counterparty risk. Counterparty risk is the risk of possible losses due to unexpected default or deterioration in the credit standing of the counterparties and debtors of the company.

##### C.4.3.2. QUALITATIVE ASSESSMENT

Risk category	Qualitative description of exposure
Type One Counterparty Default	Type one counterparty default risk is the exposure of the company to defaults of bank counterparties. The exposure to each counterparty is dependent on the likelihood of default of each counterparty and therefore dependent upon their credit rating. BHSF's main exposures to type one counterparty risks are:

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#### SECTION C: RISK PROFILE (continued)

Risk category	Qualitative description of exposure
	<ul style="list-style-type: none"><li>• bank default through the cash holding for insurance business and for other business. Cash is only placed in major UK banks and limits are in place for each single name exposure.</li></ul>
Type Two Counterparty Default	<p>Type two counterparty default is the exposure of the company to defaults of insurance intermediaries; policyholder debtors; and reinsurers. The exposure to each counterparty is dependent on the likelihood of default of each counterparty and therefore dependent upon their credit rating. BHSF's main exposures to type two counterparty risks are:</p> <ul style="list-style-type: none"><li>• Intermediary counterparty default through the holding of some cash by an intermediary, this is limited to the exposure to BHCA Services Limited as policyholders introduced by brokers make payment direct to BHSF Limited.</li><li>• Policyholder debtors, however stops can be made on claims payments following the default of a policyholder.</li><li>• Reinsurance counterparty default through the holding of reinsurance with Beazley. However Beazley is a financially sound institution with a strong credit rating and reinsurance is limited to personal accident products and cancer cover products.</li><li>• Other customer debtors, BHSF has exposure to occupational health trade debtors.</li></ul>

#### C.4.3.3. PRUDENT MANAGEMENT PRINCIPLES

- Only Group Board approved banking and reinsurance counterparties can be used.
- Counterparties must have a branch and physical presence in the UK.
- For reinsurers headquartered outside the UK, the regulatory regime operating in the home country must be equivalent to Solvency II according to the European Commission's published list of equivalent countries.
- Banking counterparties must comply with minimum levels for applicable capital, leverage, and liquidity ratios required by the Basel III accord. Following full introduction, these will include the CET1 Ratio, Tier 1 Capital Ratio, Leverage Ratio, Liquidity Coverage Ratio, and Net Stable Funding Ratio.
- Financial information must be available for each counterparty used. For material counterparties credit ratings must be available from at least two major reputable credit ratings agencies.
- An analysis of financial statements and other available information conducted by the finance department must identify no significant issues. The precise analysis and thresholds to apply should be determined on a case-by-case basis, but should generally attest to the liquidity and good trading character of the counterparty.

**SECTION C: RISK PROFILE (continued)**

- No direct derivative counterparties may be used. Some hedging arrangements within collective investments funds that are assessed on a “look through” basis are tolerated.
- With regard to operational counterparties, financial information must be available. The counterparties must be actively managed and have contractual agreements in place with clear exit plans.

**C.4.4. MITIGATION AND CONTROL**

**Counterparty selection:** Only board approved counterparties can be used. Constraints are set for the credit rating of counterparties and the level of exposure for a type of counterparty. The board has no appetite for direct investment counterparties. The board approves any significant change to counterparty arrangements.

**Due diligence:** Credit assessments are undertaken for each proposed counterparty, and due diligence is carried out which includes consideration of financial stability, reputation and ability to meet contractual requirements.

**Contract management:** For each significant counterparty a contractual agreement is drawn up. These include specifications of: (a) the duties and responsibilities of both parties; (b) the counterparties commitment to comply with all applicable laws, regulatory requirements and guidelines as well as policies approved by the company; (c) the counterparties obligation to disclose any development which may have a material impact on its ability to carry out activities effectively and in compliance with applicable laws and regulatory requirements; (d) a notice period for the termination of the contract which is long enough to enable the company to find an alternative solution; (e) that the company is able to terminate the arrangement where necessary without detriment to the continuity and quality of its provision of services to policyholders (f) that the counterparty shall protect any confidential information relating to the company and its policyholders, beneficiaries, employees, contracting parties and all other persons.

**Risk mitigation:** BHSF has no collateral arrangements in place with its respective counterparties.

**Counterparty Monitoring:** On an annual basis, the individual responsible for the counterparty relationship reviews the financial viability of the counterparty in meeting obligations, and the overall performance of the relationship in meeting contractual terms. On an ongoing basis financial controls are in place to ensure financial obligations of counterparties are met as they fall due.

**Credit Control:** Credit control procedures operate day-to-day to keep the total amount of outstanding debt down. Debtors are managed on a day-to-day basis, with regular contact established in order to arrange payment of amounts overdue. Debtors are considered to be impaired when they are more than three months overdue and without a payment plan in place or there are other indicators of impairment.

**Tolerance limits:** The board is not willing to accept the risk of any single group company placing more than £2.0m with any single bank, or any more than £2.5m in the case of RBS, the Group's main banking partner. The board is not willing to accept the risk of placing cash

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#### **SECTION C: RISK PROFILE (continued)**

with any bank outside of a preapproved list of banking counterparties. The Board is not willing to accept the risk of any single banking counterparty of having a credit rating that sits outside of Board approved risk appetite.

A number of health cash plan providers (including BHSF Ltd) have created a company called BHCA (Services) Ltd. This company collects cash on the HCP providers' behalf. There is currently an exposure of between £100k and £200k held with this company.

- For corporate policyholders a stop can be put on claims if a policyholder group is not paid up to date.
- For individual policyholders, where each debt is significantly smaller, policyholders can be up to three months behind on premiums before a stop is placed on their account.

To enable stoppages on claims payment to be made promptly, receivables balances are monitored on a monthly basis by the finance function

#### **C.4.5. MOVEMENTS OVER THE REPORTING PERIOD**

Counterparty default risk has grown over the year due to increasing trade debtor balances, offset somewhat by falling cash balances.

#### **C.4.6. EMPLOYEE PENSION FUND RISK**

##### **C.4.6.1. OVERVIEW**

BHSF provides retirement benefits to some of its former employees and current employees through defined benefits (DB) and defined contributions (DC) pension schemes.

For the DC scheme the payment depends on how long the employee saves for, how much BHSF pays in, how well the investments have performed, what charges have been taken out of the pot and how much is taken out as a cash lump sum. The DC scheme does not represent a material risk.

For the DB scheme, the benefit depends on each member's salary and pensionable service. Members are no longer accruing benefits under the scheme. Pensions are revalued from the date that pensionable service ceased, up to retirement. Once in payment, pension increases are applied, parts of which are linked to inflation (up to a limit).

The scheme's assets are held separately from the company in a trust. The assets are safeguarded by trustees on behalf of the members. The assets are invested to meet the benefits promised under the scheme, by a combination of investment returns and contributions made by the company. BHSF has an obligation to address any deficits in the DB pension scheme.

As such BHSF Group is exposed to the risk of volatilities of the investment market and volatilities of pension scheme liabilities.

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#### SECTION C: RISK PROFILE (continued)

##### C.4.6.2. QUALITATIVE ASSESSMENT

Risk Category	Application to BHSF
<b>DB Scheme</b>	<p>This risk relates to the company's exposure to the DB pension scheme deficit.</p> <p>BHSF provides retirement benefits to some of its former employees and current employees through defined benefits (DB) and defined contributions (DC) pension schemes. The DB pension scheme was closed to further accrual on the 31st October 2012. As with the vast majority of organisations that have operated a DB pension scheme, it is recognised as a material risk to the business.</p> <p>The Scheme's assets are held separately from the Company in a trust fund, looked after by Trustees on behalf of the members. The assets are invested to meet the benefits promised under the Scheme, by a combination of investment returns and contributions made by the Company. Under the normal course of events, actuarial valuations are undertaken every three years to confirm whether the assets are expected to be sufficient to provide the benefits. If there is a shortfall, a recovery plan is put in place under which the Company is required to pay additional contributions over a period of time agreed with the Trustees. The next such valuation takes place in 2020.</p> <p>BHSF has a legal obligation to address any deficits in the DB pension scheme under the Pensions Act 2004.</p> <p>BHSF is exposed to the risk arising from a shortfall in the defined benefits employee pension fund which results in a requirement to inject capital into the defined benefits scheme. The DB Scheme carries with it a longevity risk and market risks. The liabilities might significantly increase if the underlying assumptions on longevity (morbidity rates) change. Volatility of asset values caused, in particular, by fluctuations in interest rates, could potentially lead to a widening of the gap between pensions assets and liabilities</p>

##### C.4.6.3. MITIGATION AND CONTROL

###### Triennial pension fund reviews

On a triennial basis a review of the pension deficit is undertaken by actuaries. This includes a review of the underlying actuarial assumptions. This is reviewed by the pension fund trustees and by the Group Board. The next valuation will take place in 2020.

###### Pension fund performance reports

On a quarterly basis the pension fund administrators provide reports on the performance of funds including the valuation of funds. These reports are reviewed by the pension fund trustees and by the Group Board.

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### **SOLVENCY AND FINANCIAL CONDITION REPORT**

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#### **SECTION C: RISK PROFILE (continued)**

##### **Actuarial report**

On an annual basis a report is produced which defines the actuarial functions underlying the deficit calculations and providing detail of potential exit plans together with the impact on the BHSF Group. These reports are reviewed by the pension fund trustees and by the Group Board.

##### **Pension fund contributions**

Periodically pension fund contributions are made by BHSF Group to ensure any identified deficit is addressed within a reasonable time period and that no excessive deficit is accumulated.

#### **C.4.6.4. MOVEMENT OF RISK OVER REPORTING PERIOD**

The triennial review, carried out in 2017, re-estimated the deficit as £48k which is a significant reduction from the previous assumption. The pension fund performance over 2017 continued to contribute to the reduction of the deficit. Throughout 2018, the response to this risk has seen a monthly payment made into the DB Pension fund.

However, since the triennial valuation was carried out a number of developments in UK-wide case law, including the Guaranteed Minimum Pension (GMP) equalisation case, have resulted in increases to the pension scheme deficit.

##### **NSLT Health Risk**

The NSLT Health Risk exposure has increased due to increased premiums over the reporting period due to the full-year impact of the acquisition of the Benenden book of business in mid- 2017, as well as the impact of a strong sales performance in 2017.

##### **Pension Risk**

Pension scheme risk has increased over the reporting period, with an increased scheme deficit (£1.3m 2018 vs £0.7m 2017). This is partly due to weak performance in investments in the latter part of 2018 as well as increased liabilities as a result of changes to case law in respect of Guaranteed Minimum Pension (GMP) equalisation calculations.

##### **Equity Risk**

Equity risk has been volatile over the year thanks to a volatile year of global political and economic news. Overall, at the end of the year, equity risk has decreased thanks to some substantial falls in market values towards the end of the year, reducing the value of assets exposed to equity risk.

##### **Operational Risk (covering data and supplier risk)**

In 2018 reductions in operational risk exposure have been achieved through significant improvements in corporate governance, enhanced information technology control, and enhanced information security. This has included a strengthening of mitigation controls for disaster recovery. This is not reflected in the SCR calculation of operational risk exposure due to this being entirely dependent upon health insurance policy volumes which have grown over the reporting period.



**SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION C: RISK PROFILE (continued)****Other Comments**

The Directors confirm that the level of exposure to NSLT Health Risk and Equity Risk are within their defined tolerance levels. These are risks that are recognised as being central to the business model and are accepted on that basis.

The Defined Benefit Pension Scheme risk continues to be a significant risk that BHSF Group retains that is not central to its business model. The Directors' preference is to transfer this risk, but the cost of doing so must not place too great a risk on the solvency of the underlying business. Current market prices would reduce the Group's solvency to an unacceptable level so a transfer is not currently being sought, and looks unlikely in the near-to-medium term. The Directors will monitor market conditions on an ongoing basis so as to be able to reassess when and if conditions become more favourable.

The frequency of cyber-attacks globally is increasing and it is recognised that preventative controls can never fully eradicate the threat. Cyber-attacks are now an insured exposure (from October 2017). The Directors recognise that the level of cyber insurance needs to be reviewed on at least an annual basis to ensure adequate cover to address the increased threat of a cyber-attack.

The Directors recognise that outsourced investment management to one counterparty poses some outsourcer concentration risk to the business. However, this is mitigated by the security of the assets from the default by the counterparty, the financial stature of that counterparty and the day to day controls in place to ensure prudent activity of the investment managers.

**C.4.7. OPERATIONAL RISK****C.4.7.1. OVERVIEW**

Operational risk is the risk of losses stemming from inadequate, unfair or failed internal processes, people and systems or from external events. It includes legal compliance risks.

**C.4.7.2. QUALITATIVE ASSESSMENT**

<b>Risk category</b>	<b>Qualitative description of exposure</b>
Information technology	Risks that emanate from the use, ownership, operation, involvement, influence and adoption of IT within BHSF Group.
Data	<p>Risks that emanate from the potential loss and/or misuse of company data. In addition, the failure in storage, use, transmission, management and security of the data. BHSF is subject to the following regulations and legislation in respect of data protection: Data Protection Law; GDPR 2018; Intellectual Property Law.</p> <p>Further to maintaining regulatory compliance, BHSF has ascribed to business standards to ensure a high level of information security is attained, namely the Information security standards ISO 27001.</p>

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION C: RISK PROFILE (continued)**

<b>Risk category</b>	<b>Qualitative description of exposure</b>
Facilities	Risks emanating from a physical and tangible item of economic, commercial or exchange value; i.e. company premises. BHSF physical assets include buildings, car fleet and other physical assets. It is important to note that all but the Gamgee House head office are leased premises, with the company car fleet also being on a leased basis.
Financial crime	<p>Risks emanating from bribery, corruption, collusion and money laundering. Financial crime risk includes internal and external fraud types; i.e. external claims fraud, identity theft, and internal expense fraud. Owing to the nature of the BHSF's business, financial crime exposure is limited to claims fraud, policyholder misrepresentation, bribery and corruption, expense fraud and internal fraud.</p> <p>BHSF Group is subject to the following regulations in relation to financial crime: Anti-Terrorism Act 2006, Crime and Security Act 2001, Proceeds of Crime Act 2002; Serious Organised Crime and Police Act 2005; UK Bribery Act 2012; Criminal Justice Act 1993</p>
People	<p>Risks emanating from and to people within BHSF Group. BHSF Group consists of five main operating companies: BHSF Ltd, BHSF Occupational Health Ltd; BHSF Employee Benefits Ltd; BHSF Management Services Limited, and BHSF Medical Practice Limited.</p> <p>BHSF OH Ltd consists of administration staff, clinical staff and business development staff. BHSF OH Ltd subcontracts to recruitment agencies and third-party nurses (OH advisors) and third-party doctors (OH practitioners). In addition to those listed, OH has a network of c. 300 preferred practitioners.</p> <p>BHSF EB Ltd consists of a contact centre, marketing, product development, and field sales.</p> <p>BHSF Management Services consists of IT, Finance, HR, Facilities, Risk, Technical and Underwriting, Compliance, and other operational and administration staff.</p> <p>A number of Health and Safety exposures exist within the Group, none of which are unusual for a Financial Services organisation that requires daily use of VDU's, desk based work, a field sales function (also at risk from lone worker elements) and an Occupational Health arm.</p>

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION C: RISK PROFILE (continued)**

<b>Risk category</b>	<b>Qualitative description of exposure</b>
Conduct	<p>Risks emanating from a failure to deliver fair customer outcomes and/or causing detriment to market integrity. Examples include:</p> <ul style="list-style-type: none"><li>• Misleading or inaccurate financial promotions risk;</li><li>• New product flaws;</li><li>• Inaccurate or incorrect post-sale information;</li><li>• Untimely or unfair handling of claims or complaints;</li><li>• Medical malpractice (Occupational Health and Medical Practice).</li></ul> <p>BHSF is subject to regulation in respect of business conduct. This includes the Conduct of Business Handbook for Insurers which is applicable to BHSF Ltd and BHSF EB Ltd and the Medical Act 1983 for BHSF OH Ltd. Examples include:</p> <ul style="list-style-type: none"><li>• Insurance mediation directive</li><li>• Insurance Distribution Directive (IDD)</li><li>• Insurance conduct of business sourcebook</li><li>• Consumer rights act 2015</li><li>• Insurance Act 2015 (consumer contracts)</li><li>• Financial Services and Markets Act 2000- regulated activities order</li><li>• FCA handbook.</li></ul> <p>Further to maintaining regulatory compliance with business practices, BHSF has ascribed to various business standards to ensure a high level of conduct is attained.</p> <p>These include:</p> <ul style="list-style-type: none"><li>• Standards for safe, effective, and quality occupational health standards SEQOHS.</li><li>• Quality management standards ISO 9001:2015</li></ul>
Suppliers	<p>Risks emanating from Suppliers and Outsourced Third Parties, including a required governance oversight of such third parties; i.e.</p> <ul style="list-style-type: none"><li>• Supplier risk: The risk of losses stemming from a failure of operations resulting from a supplier not meeting expected quality standards.</li><li>• Outsourcing risk: The risk of losses stemming from a failure of operations resulting from an outsourcer not meeting expected quality standards.</li></ul>
Process Risk	<p>BHSF undertakes sales, marketing, customer services, underwriting, product development processes supported by finance, human resource and IT processes.</p>

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### SOLVENCY AND FINANCIAL CONDITION REPORT

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#### SECTION C: RISK PROFILE (continued)

Risk category	Qualitative description of exposure
Legal and Regulatory	<p>Risks emanating from changes in regulation and legislation. In addition, the impact of not abiding by regulation and/or legislation. Examples include:</p> <ul style="list-style-type: none"><li>• Distant marketing directive</li><li>• Consumer rights act 2015</li><li>• Insurance Act 2015 (consumer contracts)</li><li>• Financial Services and Markets Act 2000- regulated activities order</li><li>• FCA handbook</li><li>• GDPR</li><li>• UK Bribery Act 2012</li><li>• Criminal Justice Act 1993</li><li>• Data Protection Act 1998</li><li>• HMRC Disputes</li><li>• Directors' and Officers' Liability</li><li>• Employers' Liability</li></ul> <p>BHSF Medical Practice is also a regulated entity, according to medical practice legislation and Care Quality Commission (CQC).</p>

#### C.4.7.3. PRUDENT PERSON PRINCIPLES

- Employees should meet fit and proper requirements and have the necessary skills and experience to fulfil their roles.
- High standards of service should be ensured through implementation of documented processes and standard operating procedures and automation should be used to minimise the risk of human error (end user computing applications should be kept to a minimum).
- Minimum standards of control should be established for all categories of operational risk and should be documented in policies. The operation of these controls should be regularly monitored.
- Business continuity policies and disaster recovery policies should be maintained to ensure continuous operational service and in the event of an unavoidable catastrophe resume operations with minimal disruption.
- Group insurances should be appropriate given the operational risks faced by the business within changing business conditions and these should be reviewed on an annual basis.

#### C.4.7.4. MITIGATION AND CONTROL

##### Group Insurances

BHSF Group has in place a range of commercial insurance policies designed to mitigate operational risks faced in the healthcare insurance market. Policies include cover for combined commercial and property risks, Employer's liability, engineering inspection,

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### **SOLVENCY AND FINANCIAL CONDITION REPORT**

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#### **SECTION C: RISK PROFILE (continued)**

professional indemnity, Key Persons cover, Cyber insurance, personal accident/business travel, directors' and officers' liability and motor.

##### **Business Continuity Policy**

Business continuity, disaster recovery and succession plans are in place for BHSF Group which are tested on an annual basis.

##### **Operational Controls**

Detection, prevention, monitoring and response controls are implemented for each category of operational risk. These are documented in operational policy and standards documents.

#### **C.4.7.5. MOVEMENT OVER THE REPORTING PERIOD**

The Standard Formula quantification of Operational Risk has been used to determine the Operational Risk requirement. The standard formula method of Operational Risk quantification is determined considering the volume of business that flows through the company.

A number of Operational Risk scenarios were conducted during Risk Workshops in Q3 2017. These are deemed to be of value and will provide lessons learned, along with a base level of risk from which to work from. As such, they have been retained in the 2018 ORSA, for continuous use and reference. However, the process of conducting the workshops, and the scenario quantification itself, will need to be refined and progressed through 2019.

#### **C.4.8. GROUP RISK**

##### **C.4.8.1. OVERVIEW**

In its operation as a group of companies, BHSF Group is exposed to a contagion risk amongst the operating companies. This consists of both (a) concentration risk where an exposure to a risk is held by multiple business entities; and (b) the risk of contagion of risks between Group entities experienced through reputational damage or through liquidity issues at an entity level.

In the course of normal trading, all companies within the BHSF Group incur costs which must be settled. The main trading entities – BHSF Limited, BHSF Management Services Limited, BHSF Employee Benefits Limited, and BHSF Occupational Health Limited – incur the vast majority of the Group's costs and therefore carry most of the liquidity risk. The major liabilities and sources of cash to meet them in each main trading entity are discussed below.

BHSF's most significant financial obligations include: pension obligations; claims obligations; underwriting costs and commissions; salaries and payroll taxes; IT maintenance and support; and taxes. The maintenance of sufficient cash inflow depends on premium and all other income payments, along with investment income and gains.

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION C: RISK PROFILE (continued)****C.4.8.2. QUALITATIVE ASSESSMENT**

<b>Risk category</b>	<b>Qualitative description of exposure</b>
BHSF Limited liquidity risk	In many lines of insurance business, premium income and, to a greater extent, claim payments do not occur evenly. This means that cash flow can be volatile and liquidity problems can occur if cash flow is not properly managed. BHSF Limited's business does not follow this pattern. The nature of the BHSF Limited's core health cash plan business, which makes up over 90% of the Group's premium income is such that: (i) claims are of high volume, covering dental and optical appointments and other day-to day treatments, but low in value; (ii) operating costs are relatively stable; and (iii) premium income is regular and collected on a monthly basis. Consequently, there are fluctuations in cash flow, but nowhere near the degree experienced in some other types of insurance. A fluctuation of cash flow could however be caused by a lapse of a corporate client or by a large project expenditure, or by an acquisition.
BHSF Employee Benefits Limited liquidity risk	BHSF Employee Benefits income is dependent upon commission payments from BHSF Limited and other insurance providers plus invoiced premium income from HR support services. Income is therefore regular. The financial obligations of BHSF Employee Benefits Limited are limited to operating costs which are stable. Consequently, there are minimal fluctuations in cash flow. A fluctuation of cash flow could however be caused by a lapse of a corporate client or by a large project expenditure, or by an acquisition.
BHSF Occupational Health Limited liquidity risk	BHSF Occupational Health Limited's income is dependent upon occupational health service revenues. Income is regular and collected on a monthly basis. Acquisition activity of a number of individual occupational health businesses has driven up operational costs, designed to ensure high quality consistent processes and systems throughout BHSF Occupational Health Limited. This has put a strain upon liquidity as has the fact that BHSF Occupational Health Limited has, thus far, been loss-making. Capital contributions are made from BHSF Group Limited when necessary.

**C.4.8.3. MITIGATION AND CONTROL**

BHSF Group Limited holds cash reserves which enable financial liabilities to be met in full.

In addition, a significant buffer is maintained above working capital requirements, with BHSF Limited holding sufficient cash and liquid investment reserves which enable financial liabilities to be met in full.

BHSF Group has access to a revolving credit facility which can be used to provide extra liquidity as and when required. Loans taken from the facility are interest-bearing, using a rate determined on the date funds are drawn down, and are repayable 12 months from the date they are drawn.

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**SECTION C: RISK PROFILE (continued)**

As well as access to revolving credit, the Group also has the option of internal funding where one subsidiary has a temporary liquidity need that can be met by a cash surplus in another subsidiary. Money can be received from subsidiary companies via dividend or formal loan where the particular subsidiary's policies allow for this. This can then be passed into another subsidiary by way of formal investment or loan (where allowed by the particular subsidiary's articles of association and appropriate laws and regulations). Alternatively, informal intra-group current accounts repayable on demand could be used for very short term intra-group funding.

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****SECTION D: VALUATION FOR SOLVENCY PURPOSES**

This chapter outlines the composition of the Group's regulatory balance sheet and explains the ways in which the various material classes of assets and liabilities within it have been valued. The full regulatory balance sheet of the Group is presented below alongside the equivalent UK Generally Accepted Accounting Practice (GAAP) figures. For the significant lines, references are given to the subsections that contain further detail on the valuation bases.

Note that the more detailed approach of Solvency II results in some sundry rounding differences in certain lines. These are not discussed in detail.

<b>Balance Sheet Line</b>	<b>Solvency II £'000</b>	<b>UK GAAP £'000</b>	<b>Difference £'000</b>	<b>Ref</b>
<b>Assets</b>				
Goodwill		451	(451)	D.1.1
Intangible assets		246	(246)	D.1.1
Deferred tax assets	911	914	(3)	D.1.2
Property, plant & equipment for own use	1,866	1,870	(4)	D.1.3
Property other than for own use	1,325	1,325	-	D.1.3
Participations and related undertakings			-	-
Equities - listed	7,735	7,735	-	D.1.4
Equities - unlisted	17	17	-	D.1.4
Government Bonds	3,901	3,901	-	D.1.4
Corporate Bonds	4,558	4,558	-	D.1.4
Collective Investment Undertakings	4,080	4,080	-	D.1.4
Reinsurance recoverables	222	222	-	D.1.5
Insurance receivables	2,292	2,292	-	D.1.6
Trade receivables	2,643	3,076	(433)	D.1.6
Cash and cash equivalents	3,808	4,047	(240)	D.1.7
Any other assets not elsewhere shown	12	12	-	-
<b>Total assets</b>	<b>33,370</b>	<b>34,746</b>	<b>(1,376)</b>	
<b>Liabilities</b>				
Technical provisions	(2,778)	(2,425)	(353)	D.2
Other provisions	(39)	(39)	-	-
Pension benefit obligations	(1,256)	(1,256)	-	D.3.1
Deferred tax liabilities	(246)	(246)	-	D.1.2
Debts owed to credit institutions			-	D.3.2
Trade payables	(2,806)	(4,208)	1,402	D.3.3
Any other liabilities not elsewhere shown	(706)	-	(706)	D.3.4
<b>Total liabilities</b>	<b>(7,831)</b>	<b>(8,174)</b>	<b>343</b>	



**SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)**

**D.1. ASSETS**

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Under Solvency II, assets should be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. In only very few cases the Solvency II valuation basis for assets does not match with the principles of UK GAAP under which the statutory accounts are prepared.

**D.1.1. GOODWILL AND INTANGIBLE ASSETS**

Goodwill and the other intangible assets shown on the balance sheet arise as a normal part of acquisition activity. Intangible assets represent the value of the contracts and customer relationships acquired, while goodwill represents the intrinsic value of the acquired companies over and above the value of the assets they hold on their balance sheets. The Solvency II regulations unequivocally state that goodwill should be valued at nil, as should the vast majority of other intangible assets, unless there is an active market for them. This is in contrast to UK GAAP which values goodwill and other intangibles at cost less amortisation and impairment and therefore a difference arises which reduces the Group's assets for regulatory purposes by £ 451 k for goodwill and £ 246 k for other intangibles.

**D.1.2. DEFERRED TAX**

Deferred tax assets are recognised primarily in relation to the deficit on the Group's defined benefit pension scheme. There is no difference between the UK GAAP valuation and the Solvency II valuation of this asset. Similarly, there is no difference in the valuation of deferred tax liabilities which arise primarily on fair value adjustments made to properties. Any difference between Solvency II and UK GAAP is a consequence of D.3.4.

**D.1.3. PROPERTY, PLANT AND EQUIPMENT**

Property in use by the Group comprises Gamgee House, the Group's headquarters building in Birmingham. Property other than for own use comprises Tyn y Coed, a farm and area of land which the Group rents out. Note the aforementioned farm was sold in March 2019.

Plant and equipment held for own use comprises the fixtures, fittings, IT equipment, and other items used by the Group in its day-to-day business.

In the statutory accounts, the properties are both valued at their market value as assessed by independent professional property valuation experts. As such, there is no difference between the regulatory accounting treatment and the statutory accounting treatment for these items.

Tangible fixed assets are valued at their cost less accumulated depreciation in the statutory accounts. This does not match with the valuation basis required of the Solvency II regulatory balance sheet. However, the Group is prudent in its selection of depreciation policies and as such management expects that the regulatory valuation of tangible fixed assets would not be materially different to the statutory accounts valuation.

The difference of £4k between the regulatory and GAAP balance sheets is a result of the difference in treatment of related undertakings as discussed in D.3.4.

## **BHSF GROUP LIMITED**

### **SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)**

##### **D.1.4. INVESTMENTS**

The Group's investment portfolio comprises:

- Listed equities - holdings of shares in UK listed firms – generally those listed on the FTSE 100 index
- Government bonds - holdings of UK Government gilts
- Corporate bonds - holdings of investment grade corporate debt issued in sterling
- Collective investment undertakings - holdings of units in investment funds which invest in a variety of assets. All of the Group's fund investments are denominated in sterling, but the funds themselves can be invested in a wide variety of assets including, but not limited to:
  - UK and overseas government debt
  - UK and overseas listed equities
  - UK and overseas corporate debt

All of the categories of investment listed above are valued based on the bid price observed in the active markets for the items on the valuation date for both regulatory and statutory accounting purposes. This means there is no difference between regulatory and statutory accounts in this area.

##### **D.1.5. REINSURANCE RECOVERABLES**

Reinsurance recoverables refer to the amounts expected to be recovered from the Group's reinsurer, Beazley Plc, in respect of claims provided for at the valuation date.

The Group reinsures part of the risk in respect of certain of its product lines. The recoverable amount represents the reinsurer's share of personal accident claims that it is estimated have been incurred at the balance sheet date.

For statutory accounts purposes the valuation is simply the reinsured portion of the personal accident technical claims provision. For full details on the calculation of the technical provision, see section D.2. For regulatory accounts purposes, the statutory accounts figure should be modified to take account of the possibility of reinsurer default. The high quality of the reinsurer used by BHSF Group means that this adjustment is minimal, and does not significantly change the value of the recoverable.

##### **D.1.6. RECEIVABLES**

Insurance and intermediaries receivables represent amounts owing to the Group from policyholders and policyholder groups in respect of health cash plans, personal accident policies, and cancer insurance policies.

Trade Receivables represent amounts owing from customers of the non-insurance side of the business, as well as other immaterial prepayment and accrued income amounts.

Receivables of all kinds are valued for both statutory accounts and regulatory accounts as the amount of cash or other future economic benefit that is expected to flow to the Group. Adjustments are made to reduce the value of receivable to take account of bad or doubtful debts.

# **BHSF GROUP LIMITED**

## **SOLVENCY AND FINANCIAL CONDITION REPORT**

### **FOR THE YEAR ENDING 31 DECEMBER 2018**

#### **SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)**

The difference of £433k between the regulatory and GAAP balance sheets is a result of the difference in treatment of related undertakings as discussed in D.3.4.

##### **D.1.7. CASH**

Cash includes cash balances held with the Group's banking partners. In the regulatory accounts, this includes all cash held by UBS, the Group's investment managers as part of the investment portfolio.

Cash is primarily held in pound Sterling, and is valued at its face value for both statutory and regulatory accounting purposes.

The Group holds an immaterial amount of cash held in foreign currencies. These balances are translated to Sterling using the spot rate on the valuation date.

The difference of £240k between the regulatory and GAAP balance sheets is a result of the difference in treatment of related undertakings as discussed in D.3.4.

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

## SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

## D.2. TECHNICAL PROVISIONS

In the regulatory balance sheet, technical provisions comprise three major components: a claims provision; a premiums provision; and a risk margin.

Solvency II defines technical provisions in a different way to the statutory accounting framework and therefore some significant differences in approach arise.

Balance Sheet Line	Solvency II £'000	UK GAAP £'000	Difference £'000	Ref
Claims Provision	1,960	1,960	0	D.2.1
Premiums Provision	330	465	(135)	D.2.2
Risk Margin	488	0	488	D.2.3
<b>Total technical provisions</b>	<b>2,778</b>	<b>2,425</b>	<b>353</b>	

## D.2.1. CLAIMS PROVISION

The claims provision represents a best estimate of the liabilities that have already been incurred by the insurance business. This includes claims which have been reported but for which payment is pending at the valuation date, as well as an estimate of the claims which have been incurred at the valuation date but have yet to be reported by policyholders.

The calculation for claims provisions are identical in both statutory and regulatory balance sheets.

The calculation is split by product line, with the total comprised as follows:

Claims provision component	Solvency II £'000	UK GAAP £'000	Difference £'000	Ref
Health cash plan	1,580	1,580	0	D.2.1.1
Personal accident	173	173	0	D.2.1.2
Plan4Life	141	141	0	D.2.1.3
Claims expenses	66	66	0	D.2.1.4
<b>Total claims provisions</b>	<b>1,960</b>	<b>1,960</b>	<b>0</b>	

## D.2.1.1. HEALTH CASH PLANS

Health cash plans reimburse policyholders for a proportion of their expenditure on various healthcare items, such as 75% of a dental check-up bill. In addition, some benefits provide financial support to cover the costs of policyholders on the occurrence of certain events, such as per-diem hospitalisation payments, or a lump sum paid on the birth of a child. The vast majority of health cash plan policies renew on a monthly basis. Most cash plans have a qualifying period at the start of the policy during which no claims can be made.

**SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)**

Health cash plan claims are generally made within a few months of the event taking place. The technical provision for health cash plan claims is calculated based on actual historic claims experience over recent months as well as any overall trends observed in claim levels over the past year.

In the calculation of technical provisions, all types of cash plan claims continue to be treated as a homogenous group. This is a simplification which management consider is consistent with the fact that the vast majority of claims paid out under health cash plans are for dental and optical treatment, which do behave similarly, and that any differences that might arise from a more granular consideration of provisions is immaterial. This and other judgements are kept under review and changes are made to the provision methodology where there is evidence of significant shortcomings.

**D.2.1.2. PERSONAL ACCIDENT**

Personal accident claims are paid on the occurrence of certain accidents which cause bodily injury to the policyholder, including accidental death in many policies. The majority of BHSF's personal accident policies exist as free attachments to health cash plans and so follow their terms. In particular this means that there is normally a qualifying period, and the majority of personal accident policies renew on a monthly basis. Similar to health cash plans, personal accident claims are generally settled a few months after they are incurred, but a very small number of complex claims can take a number of years to settle.

The calculation of the personal accident claims provision is analogous to the cash plan provision. Past claims history is examined and blended with an examination of prevailing longer-term trends to estimate claims incurred but not reported at any one time.

Similar to health cash plans, the personal accident provision calculation treats the whole category of personal accident claims as a single homogenous group. This and other judgements are kept under review and changes are made to the provision methodology where there is evidence of significant shortcomings.

**D.2.1.3. PLAN4LIFE (CANCER COVER)**

Plan4Life policies pay the policyholder upon diagnosis with any of a range of cancers. Payment is in two bands: a lower amount (£250) is paid for carcinoma in situ and can be paid up to four times during the life of a policy, while a larger amount (£5,000 - £25,000 depending on level of cover) is paid for more serious cancers and can be paid only once during the life of the policy.

Like cash plans and personal accident policies, Plan4Life policies renew on a monthly basis and there is normally a qualifying period at the start of the policy. To claim, a policyholder need only be diagnosed with a covered cancer during the period of cover that follows the initial qualifying period.

Plan4Life is still a relatively new product and is relatively small in the context of the Group's overall insurance business. For that reason there is a limited claims history on which to base provision calculations.

The Plan4Life claims provision is calculated using available cancer and population statistics from the Office of National Statistics and other sources to project the likelihood of cancer

**SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)**

incidence in the different claim categories of different population of policyholders, and applying the appropriate payment band to the policyholder population. This methodology does assume that the population of policyholders is subject to similar rates of cancer incidence as the general population, which may not necessarily be the case.

**D.2.1.4. CLAIMS EXPENSES**

The provision for claims expenses is based on the costs of the Claims department, and the value of claims provision as a proportion of total claims paid out over the financial year.

**D.2.2. PREMIUMS PROVISION**

Both the regulatory balance sheet and statutory balance sheet have a concept of a premiums provision. However, they differ in definition.

The statutory balance sheet contains an unearned premiums provision, which represents the total of all premiums received in advance of the periods that they actually cover. This is because a policyholder cancellation could potentially lead to the repayment of all premiums received in advance.

The Solvency II regulatory balance sheet replaces the GAAP provision with the total amount of claims that is it estimated will be incurred in future periods covered by unearned premiums. The concept of recognising future liabilities in this way is not a feature of generally accepted accounting practice, giving rise to a difference between the regulatory and statutory approaches.

The regulatory premiums provision is calculated by applying the average claims ratio experienced by the Group to the amount of unearned premiums. This assumes that all of the contracts represented by the unearned premium will remain in force for the periods covered by premiums paid in advance. Given the monthly renewal of most of the Group's insurance contracts, this need not be the case – a policyholder could cancel their policy and be refunded for the future months they had paid for in advance. This adds a small degree of prudence to the calculation but this is considered to be immaterial in the overall context of the Group's balance sheet, given the overall total of unearned premiums.

This difference between the Solvency II and UK GAAP treatments gives rise to a reduction in technical provisions for regulatory purposes of £135k.

**D.2.3. RISK MARGIN**

The risk margin is a concept introduced by the Solvency II regulations and does not have an equivalent under UK GAAP. This therefore causes additional liability of £488k to be recognised on the regulatory balance sheet as compared to the statutory balance sheet.

The risk margin is an estimate of the cost to a theoretical third party of raising and holding the necessary capital it would require to cover the additional Solvency Capital Requirement that would arise were they to acquire the Group's book of insurance business. In the regulations, this is calculated by taking the Solvency Capital Requirement attached to the insurance business (including policyholder and other insurance receivables) for each future year of the business and applying a given cost of capital.

**SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)**

**D.3. OTHER LIABILITIES**

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Under Solvency II, liabilities should be valued at the amount for which they could be transferred or settled between knowledgeable, willing parties in an arm's length transaction. The material categories of liability, other than technical provisions, are covered in more detail below.

**D.3.1. DEFINED BENEFIT PENSION SCHEME**

The Group operates a legacy defined benefit pension scheme for current and former employees. The scheme is closed to new entrants and closed to future accrual of benefit. The scheme comprises the present value of the amounts estimated to be paid in future to beneficiaries, as well as a portfolio of investments intended to support these payments. The benefit obligation presented on the regulatory and statutory balance sheets is the net of the scheme's asset and liability positions.

The pension scheme assets comprise equities, corporate and government bonds, as well as collective investment fund holdings. These are valued in the same way as the equivalent assets held outside of the pension scheme as described in D.1.4.

Pension scheme liabilities are valued on an actuarial basis using the projected unit method by third party pension scheme actuaries, *Quattro Pensions*. These calculations are performed so as to be compatible with the FRS 102 basis of the Group's statutory accounts, however this method is also compatible with the requirements of international financial reporting standards and Solvency II.

The key assumptions utilised by the actuaries in arriving at their estimate of the liabilities are current high-quality corporate bond yields, rates of inflation, and life expectancy of scheme members. The valuation of the scheme liabilities is sensitive to changes in any of these major assumptions.

**D.3.2. DEBTS WITH CREDIT INSTITUTIONS**

This balance represents drawings on the Group's revolving credit facility at the valuation date. This amount is to be settled within one year and is valued using the UK GAAP amortised cost accounting methodology. There is no difference between this and the Solvency II valuation.

**D.3.3. OTHER PAYABLES**

Trade payables include payables that are not directly and solely associated with insurance, including day-to-day trading items such as utility and other supplier payables, as well as tax and social security liabilities.

These liabilities are primarily short term (falling due within 12 months) and are simple in nature in that they are transferrable for a known value at a known point in time. As such, the valuation method for liabilities is the same in both regulatory and statutory balance sheets. The difference of £1,402k between the regulatory and GAAP balance sheets is a result of the difference in treatment of related undertakings as discussed in D.3.4.

**D.3.4. OTHER LIABILITIES (PARTICIPATIONS AND RELATED UNDERTAKINGS)**

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

Under UK GAAP, the consolidated accounts of the Group eliminate any investments in other BHSF Group companies and incorporate their assets line-by-line into the balance sheet of the Group. Solvency II takes a different approach and incorporates the assets and liabilities of the following BHSF Group companies into a single line:

- BHSF Employee Benefits Limited, and
- BHSF Corporate Healthcare (Holdings) Limited

This has no overall impact on the value of the Group's assets and liabilities. However, by incorporating a number of different assets and liabilities into a single line, it gives rise to a number of differences between the regulatory figures and UK GAAP figures which will be referred to elsewhere in this section. These differences are as follows:

Balance Sheet Line	Value £'000	Ref
Intangible Assets	16	D.1.3
Property, plant & equipment for own use	4	D.1.1
Trade receivables & Deferred Tax	436	D.1.6
Cash and cash equivalents	240	D.1.7
<b>Trade payables</b>	<b>(1,402)</b>	<b>D.3.3</b>

#### D.4. ALTERNATIVE METHODS FOR VALUATION

BHSF Group does not make use of any alternative methods for valuation.

#### D.5. ANY OTHER INFORMATION

There is no further information on capital management to disclose.



## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

#### FOR THE YEAR ENDING 31 DECEMBER 2018

#### SECTION E: CAPITAL MANAGEMENT

This chapter provides detail on the structure of the Group's capital resources and the regulatory levels of capital that must be held by the Group.

##### E.1. OWN FUNDS

BHSF Group Limited, the ultimate sole owner of all companies in the BHSF Group is not-for-profit, limited by guarantee. This means that the Group is unable to raise capital using many methods that are available to most other companies.

As a result, the Group has no capital instruments in issue, and has no subordinated or other forms of liability which may serve as capital. The Group's own funds are comprised of the excess of the value of assets over liabilities and is the Solvency II regulatory equivalent of the accumulated fund in the Annual Report and Accounts. This is analysed as net deferred tax assets and a remaining "reconciliation reserve".

	<b>2018</b>	<b>Ref</b>
	<b>£'000</b>	
Assets	33,370	D.1
Technical Provisions	(2,778)	D.2
Other liabilities	(5,053)	D.3
<b>Excess of assets over liabilities</b>	<b>25,539</b>	
Analysed as:		
Net deferred tax assets	665	
Reconciliation reserve	24,874	
<b>Excess of assets over liabilities</b>	<b>25,539</b>	

The reconciliation reserve represents the accumulated profits over the entire trading history of the Group. These profits have been invested in the various assets covered in greater detail in section D. There are no restrictions on the use of this reserve that would prevent it being used to meet regulatory capital requirements. Under the Solvency II regulations, this means that all of the Group's reconciliation reserve belongs to the high quality 'tier one'.

Although the lack of restriction on the reconciliation reserve provides the Group with a degree of freedom in its use of those funds, the fact that the Group is unable to readily from other many of the sources available to for-profit share capital businesses means that the Group manages its capital resources conservatively. The company's capital is managed by the board and in particular, the board's Investment, Audit, and Risk and Compliance committees play key roles in ensuring the appropriate management of capital and safeguarding of assets.

There have been no unusual movements in any elements of own funds during the last year. Movements comprise total comprehensive income per the Group's financial statements plus Solvency II adjustments that arise as a result of changes in the difference between the UK GAAP balance sheet and the Solvency II balance sheet over the course of the year.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

#### FOR THE YEAR ENDING 31 DECEMBER 2018

	<b>2018</b>
	<b>£'000</b>
Opening own funds	29,723
Total comprehensive expenditure	(4,417)
Solvency II adjustments	233
<b>Closing own funds</b>	<b>25,539</b>

The Group has the ability to move capital between its various subsidiaries in a controlled manner. Capital can be received from subsidiary companies via dividend where the particular subsidiary's policies allow for this. Each subsidiary company has a dividend policy that restricts the circumstances under which dividends can be paid. In particular, BHSF Limited's dividend policy prevents dividend payments where the extraction would result in BHSF Limited's solvency ratio falling below a level of tolerance set by the BHSF Limited board. Capital received can then be passed into another subsidiary by way of formal investment.

During the year, formal investment by BHSF Group Limited was made into BHSF Corporate Healthcare (Holdings) Limited and subsequently into BHSF Occupational Health Limited; the amounts advanced in this way during the year totalled £500k. This was financed by a £2,000k dividend from BHSF Limited. A smaller amount of £102k was invested in BHSF Medical Practice Limited by BHSF Occupational Health Limited.

No other significant amounts were moved around the Group during the year via other methods.

#### **E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT**

The Group's Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) are calculated using the standard formula provided by the Solvency II regulations. The Group does not make any significant simplifications within the standard formula.

In line with the Group's prudent approach to capital management, none of the available transitional measures for calculating the SCR were taken advantage of. These generally served to smooth the transition into Solvency II from the former Solvency I regulatory regime. Generally speaking, these allowed the SCR to increase more gradually over time from its Solvency I position to the final Solvency II position so that insurers could make the necessary changes to their capital structure over time. The Group, having a simple capital structure and large capital reserves, was able to move directly to final Solvency II calculations. This resulted in a larger SCR, but meant that policyholders and other users of the SFCR receive clear, transparent information about the capital strength of the Group under the new regulations.

## BHSF GROUP LIMITED

### SOLVENCY AND FINANCIAL CONDITION REPORT

#### FOR THE YEAR ENDING 31 DECEMBER 2018

The different components of the SCR under the standard formula are as set out below. Also quoted below are the levels of own funds and the resulting solvency ratio

	<b>BHSF Group 2018 £'000</b>	<b>BHSF Limited 2018 £'000</b>
Market Risk	7,628	7,617
Health Risk	6,671	6,671
Counterparty Default Risk	1,775	1,282
Diversification	(4,075)	(3,791)
Operational Risk	1,205	1,205
Loss absorption of deferred tax	0	0
<b>Solvency Capital Requirement</b>	<b>13,204</b>	<b>12,984</b>
 <b>Total Group SCR</b>	 <b>13,204</b>	 <b>12,984</b>
 <b>Own Funds</b>	 <b>25,539</b>	 <b>22,462</b>
 <b>Group Solvency Ratio</b>	 <b>193%</b>	 <b>173%</b>

This result indicates the Group and BHSF Limited are both in strong capital positions, having enough capital to suffer an extremely severe shock and still remain compliant with the SCR and able to continue serving cash plan policyholders. However, the year-on-year decrease in solvency ratios discussed in Section C have resulted in plans being put in place to improve solvency ratios in future years.

The MCR is calculated based on a formula set out in the regulations for non-life insurers. This results in an MCR as at 31 December 2018 as follows:

	<b>BHSF Group 2018 £'000</b>	<b>BHSF Limited 2018 £'000</b>
MCR	3,246	3,246

Given the strong solvency ratio reported above, the Group's ratio of own funds to minimum eligible capital requirement is extremely high at 766% (and 678% for BHSF Limited). This indicates the risk of the Group failing to meet its MCR is extremely low.

#### **E.3. USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT**

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BHSF Group has not made any use of the duration-based equity risk submodule in its calculation of the Solvency Capital Requirement.

**E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED**

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BHSF Group does not make use of any internal model and therefore there are no differences to report in this section.

**E.5. COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT**

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There has been no non-compliance with either the Group's SCR or MCR over the previous 12 months.

**E.6. ANY OTHER INFORMATION**

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There is no further information on capital management to disclose.

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**BHSF LIMITED SOLO REGULATORY TEMPLATES**

**S.02.01.02 Balance Sheet**

	<b>Solvency II value £'000</b>
<b>Assets</b>	
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	689
Pension benefit surplus	
Property, plant & equipment held for own use	215
Investments (other than assets held for index-linked and unit-linked contracts)	22,875
<i>Property (other than for own use)</i>	2,585
<i>Holdings in related undertakings, including participations</i>	
<i>Equities</i>	7,751
<i>Equities - listed</i>	7,735
<i>Equities - unlisted</i>	16
<i>Bonds</i>	8,459
<i>Government Bonds</i>	3,901
<i>Corporate Bonds</i>	4,558
<i>Structured notes</i>	
<i>Collateralised securities</i>	
<i>Collective Investments Undertakings</i>	4,080
<i>Derivatives</i>	
<i>Deposits other than cash equivalents</i>	
<i>Other investments</i>	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	
<i>Loans on policies</i>	
<i>Loans and mortgages to individuals</i>	
<i>Other loans and mortgages</i>	
Reinsurance recoverables from:	221
<i>Non-life and health similar to non-life</i>	221
<i>Non-life excluding health</i>	
<i>Health similar to non-life</i>	221
<i>Life and health similar to life, excluding index-linked and unit-linked</i>	
<i>Health similar to life</i>	
<i>Life excluding health and index-linked and unit-linked</i>	
<i>Life index-linked and unit-linked</i>	
Deposits to cedants	
Insurance and intermediaries receivables	2,292
Reinsurance receivables	
Receivables (trade, not insurance)	4,032
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	2,848
Any other assets, not elsewhere shown	
<b>Total assets</b>	<b>33,172</b>

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

	Solvency II Value £'000
<b>Liabilities</b>	
Technical provisions - non-life	2,774
<i>Technical provisions - non-life (excluding health)</i>	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - health (similar to non-life)	2,774
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	2,286
<i>Risk margin</i>	488
Technical provisions - life (excluding index-linked and unit-linked)	
<i>Technical provisions - health (similar to life)</i>	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - life (excluding health and index-linked and unit-linked)	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - index-linked and unit-linked	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Other technical provisions	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	1,256
Deposits from reinsurers	
Deferred tax liabilities	227
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	4,838
Reinsurance payables	
Payables (trade, not insurance)	1,615
Subordinated liabilities	
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	
Any other liabilities, not elsewhere shown	
<b>Total liabilities</b>	<b>10,710</b>
<b>Excess of assets over liabilities</b>	<b>22,462</b>

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**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)	
Medical expense insurance	Total
£'000	£'000

**Premiums written**

*Gross - Direct Business*

40,126	40,126
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*Gross - Proportional reinsurance accepted*

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*Gross - Non-proportional reinsurance accepted*

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*Reinsurers' share*

434	434
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*Net*

39,692	39,692
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**Premiums earned**

*Gross - Direct Business*

40,161	40,161
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*Gross - Proportional reinsurance accepted*

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*Gross - Non-proportional reinsurance accepted*

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*Reinsurers' share*

434	434
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*Net*

39,727	39,727
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**Claims incurred**

*Gross - Direct Business*

29,057	29,057
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*Gross - Proportional reinsurance accepted*

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*Gross - Non-proportional reinsurance accepted*

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*Reinsurers' share*

325	325
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*Net*

28,732	28,732
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**Changes in other technical provisions**

*Gross - Direct Business*

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*Gross - Proportional reinsurance accepted*

--	--

*Gross - Non-proportional reinsurance accepted*

--	--

*Reinsurers' share*

--	--

*Net*

--	--

**Expenses incurred**

13,475	13,475
--------	--------

**Other expenses**

--	--

**Total expenses**

	13,475
--	--------

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**S.05.02.01 Premiums, claims and expenses by country**

Non-life	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
	£'000						£'000
<b>Premiums written</b>							
<i>Gross - Direct Business</i>	40,126						40,126
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	434						434
<i>Net</i>	39,692						39,692
<b>Premiums earned</b>							
<i>Gross - Direct Business</i>	40,161						40,161
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	434						434
<i>Net</i>	39,727						39,727
<b>Claims incurred</b>							
<i>Gross - Direct Business</i>	29,405						29,405
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	325						325
<i>Net</i>	29,080						29,080
<b>Changes in other technical provisions</b>							
<i>Gross - Direct Business</i>							
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>							
<i>Net</i>							
<b>Expenses incurred</b>	13,475						13,475
<b>Other expenses</b>							
<b>Total expenses</b>							13,475



# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### S.17.01.02 Non-Life Technical Provisions

Direct business and accepted proportional reinsurance	
Medical expense insurance	Total Non-life Obligation
£'000	£'000

#### Technical provisions calculated as a whole

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


#### Technical provisions calculated as a sum of BE and RM

##### Best estimate

##### Premium provisions

##### Gross - Total

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

##### Net Best Estimate of Premium Provisions

326	326
326	326

##### Claims provisions

##### Gross - Total

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

##### Net Best Estimate of Claims Provisions

1,960	1,960
221	221
1,739	1,739

##### Total best estimate - gross

##### Total best estimate - net

2,286	2,286
2,065	2,065

##### Risk margin

488	488
-----	-----

#### Amount of the transitional on Technical Provisions

TP as a whole

Best estimate

Risk margin


##### Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total

2,774	2,774
221	221
2,553	2,553

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**S.19.01.21 Non-Life insurance claims**

**Accident year / underwriting year**

Accident Year

**Gross Claims Paid (non-cumulative)**

(absolute amount)

	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Year	Development year											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +		
Prior													
N-9													
N-8													
N-7													
N-6							46					46	46
N-5	20,900	1,167	7	1	0	1						1	22,077
N-4	21,509	1,281	59	1	0							0	22,851
N-3	22,456	1,236	13	1								1	23,706
N-2	22,411	1,322	19									19	23,752
N-1	24,058	1,785										1,785	25,843
N	26,502											26,502	26,502
<b>Total</b>												28,354	144,777

**FOR THE YEAR ENDING 31 DECEMBER 2018**

(absolute amount)

£'000

**£'000**

**Year end  
(discounted  
data)**

Development year

N

---

20

**Total**



# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

### FOR THE YEAR ENDING 31 DECEMBER 2018

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
£'000	£'000	£'000	£'000	£'000

Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

**Total ancillary own funds**


#### Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

22,462	22,000			462
22,000	22,000			
22,462	22,000			462
22,000	22,000			

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

12,984
3,246
173%
678%

#### Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

22,462
462
22,000

#### Reconciliation reserve

#### Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

**Total Expected profits included in future premiums (EPIFP)**


# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	£'000	£'000	£'000
Market risk	7,617		
Counterparty default risk	1,282		
Life underwriting risk			
Health underwriting risk	6,671		
Non-life underwriting risk			
Diversification	-3,792		
Intangible asset risk			
<b>Basic Solvency Capital Requirement</b>	11,779		
<b>Calculation of Solvency Capital Requirement</b>			
Operational risk	1,205		
Loss-absorbing capacity of technical provisions			
Loss-absorbing capacity of deferred taxes			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
<b>Solvency Capital Requirement excluding capital add-on</b>	12,984		
Capital add-ons already set			
<b>Solvency capital requirement</b>	12,984		
<b>Other information on SCR</b>			
Capital requirement for duration-based equity risk sub-module			
Total amount of Notional Solvency Capital Requirements for remaining part			
Total amount of Notional Solvency Capital Requirements for ring fenced funds			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
Diversification effects due to RFF nSCR aggregation for article 304			

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity**

	£'000	£'000	£'000
<b>Linear formula component for non-life insurance and reinsurance obligations</b>			
MCR <sub>NL</sub> Result	1,964		
		<b>Net (of reinsurance/SPV) best estimate and TP calculated as a whole</b>	<b>Net (of reinsurance) written premiums in the last 12 months</b>
Medical expense insurance and proportional reinsurance		2,064	39,727
Income protection insurance and proportional reinsurance			
Workers' compensation insurance and proportional reinsurance			
Motor vehicle liability insurance and proportional reinsurance			
Other motor insurance and proportional reinsurance			
Marine, aviation and transport insurance and proportional reinsurance			
Fire and other damage to property insurance and proportional reinsurance			
General liability insurance and proportional reinsurance			
Credit and suretyship insurance and proportional reinsurance			
Legal expenses insurance and proportional reinsurance			
Assistance and proportional reinsurance			
Miscellaneous financial loss insurance and proportional reinsurance			
Non-proportional health reinsurance			
Non-proportional casualty reinsurance			
Non-proportional marine, aviation and transport reinsurance			
Non-proportional property reinsurance			

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

### FOR THE YEAR ENDING 31 DECEMBER 2018

#### Linear formula component for life insurance and reinsurance obligations

MCR<sub>L</sub> Result

£'000

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
£'000	£'000

Obligations with profit participation - guaranteed benefits  
Obligations with profit participation - future discretionary benefits  
Index-linked and unit-linked insurance obligations  
Other life (re)insurance and health (re)insurance obligations  
Total capital at risk for all life (re)insurance obligations


#### Overall MCR calculation

Linear MCR  
SCR  
MCR cap  
MCR floor  
Combined MCR  
Absolute floor of the MCR

1,964
12,984
5,843
3,246
3,246
2,222

#### Minimum Capital Requirement

3,246
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# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### BHSF GROUP LIMITED CONSOLIDATED REGULATORY TEMPLATES

#### S.02.01.02 Balance Sheet

	Solvency II value
	£'000
<b>Assets</b>	
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	911
Pension benefit surplus	
Property, plant & equipment held for own use	1,866
Investments (other than assets held for index-linked and unit-linked contracts)	21,615
<i>Property (other than for own use)</i>	1,325
<i>Holdings in related undertakings, including participations</i>	
<i>Equities</i>	7,752
<i>Equities - listed</i>	7,735
<i>Equities - unlisted</i>	17
<i>Bonds</i>	8,459
<i>Government Bonds</i>	3,901
<i>Corporate Bonds</i>	4,558
<i>Structured notes</i>	
<i>Collateralised securities</i>	
<i>Collective Investments Undertakings</i>	4,080
<i>Derivatives</i>	
<i>Deposits other than cash equivalents</i>	
<i>Other investments</i>	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	
<i>Loans on policies</i>	
<i>Loans and mortgages to individuals</i>	
<i>Other loans and mortgages</i>	
Reinsurance recoverables from:	222
<i>Non-life and health similar to non-life</i>	222
<i>Non-life excluding health</i>	
<i>Health similar to non-life</i>	222
<i>Life and health similar to life, excluding index-linked and unit-linked</i>	
<i>Health similar to life</i>	
<i>Life excluding health and index-linked and unit-linked</i>	
<i>Life index-linked and unit-linked</i>	
Deposits to cedants	
Insurance and intermediaries receivables	2,292
Reinsurance receivables	
Receivables (trade, not insurance)	2,643
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	3,808
Any other assets, not elsewhere shown	12
<b>Total assets</b>	<b>33,370</b>

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

	Solvency II value £'000
<b>Liabilities</b>	
Technical provisions - non-life	2,778
<i>Technical provisions - non-life (excluding health)</i>	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - health (similar to non-life)	2,778
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	2,290
<i>Risk margin</i>	488
Technical provisions - life (excluding index-linked and unit-linked)	
<i>Technical provisions - health (similar to life)</i>	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - life (excluding health and index-linked and unit-linked)	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Technical provisions - index-linked and unit-linked	
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	
<i>Risk margin</i>	
Other technical provisions	
Contingent liabilities	
Provisions other than technical provisions	39
Pension benefit obligations	1,256
Deposits from reinsurers	
Deferred tax liabilities	246
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	1,843
Reinsurance payables	
Payables (trade, not insurance)	963
Subordinated liabilities	
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	
Any other liabilities, not elsewhere shown	706
<b>Total liabilities</b>	<b>7,831</b>
<b>Excess of assets over liabilities</b>	<b>25,539</b>

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### 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)	
Medical expense insurance	Total
£'000	£'000

#### Premiums written

Gross - Direct Business	40,126	40,126
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share	434	434
Net	39,692	39,692

#### Premiums earned

Gross - Direct Business	40,161	40,161
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share	434	434
Net	39,727	39,727

#### Claims incurred

Gross - Direct Business	29,057	29,057
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share	325	325
Net	28,732	28,732

#### Changes in other technical provisions

Gross - Direct Business		
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net		

#### Expenses incurred

#### Other expenses

#### Total expenses

11,945	11,945
	11,945

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

**S.05.02.01 Premiums, Claims and Expenses by country**

Non-life	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Premiums written</b>							
Gross - Direct Business	40,126						40,126
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share	434						434
Net	39,692						39,692
<b>Premiums earned</b>							
Gross - Direct Business	40,161						40,161
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share	434						434
Net	39,727						39,727
<b>Claims incurred</b>							
Gross - Direct Business	29,057						29,057
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share	325						325
Net	28,732						28,732
<b>Changes in other technical provisions</b>							
Gross - Direct Business							
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share							
Net							
<b>Expenses incurred</b>	11,945						11,945
<b>Other expenses</b>							
<b>Total expenses</b>							11,945



# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

### FOR THE YEAR ENDING 31 DECEMBER 2018

#### Basic own funds before deduction for participations in other financial sector

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
£'000	£'000	£'000	£'000	£'000

#### Deductions

Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities

*whereof deducted according to art 228 of the Directive 2009/138/EC*

Deductions for participations where there is non-availability of information (Article 229)

Deduction for participations included by using D&A when a combination of methods is used

#### Total of non-available own fund items

#### Total deductions


#### Total basic own funds after deductions

25,539	24,874			665
--------	--------	--	--	-----

#### Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand

A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Non available ancillary own funds at group level

Other ancillary own funds

#### Total ancillary own funds


# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

### FOR THE YEAR ENDING 31 DECEMBER 2018

#### Basic own funds before deduction for participations in other financial sector

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
£'000	£'000	£'000	£'000	£'000

#### Own funds of other financial sectors

Credit institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies

Institutions for occupational retirement provision

Non regulated entities carrying out financial activities

#### Total own funds of other financial sectors


#### Own funds when using the D&A, exclusively or in combination of method 1

Own funds aggregated when using the D&A and combination of method

Own funds aggregated when using the D&A and combination of method net of IGT


Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A )

Total available own funds to meet the minimum consolidated group SCR

Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A )

Total eligible own funds to meet the minimum consolidated group SCR (group)

25,539	24,874			665
24,874	24,874			
25,539	24,874			665
24,874	24,874			

#### Consolidated Group SCR

#### Minimum consolidated Group SCR

Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A )

Ratio of Eligible own funds to Minimum Consolidated Group SCR

Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A )

SCR for entities included with D&A method

Group SCR

Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A

13,204				
3,246				
193%				
766%				
25,539	24,874			665
13,204				
193%				

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

### FOR THE YEAR ENDING 31 DECEMBER 2018

#### Basic own funds before deduction for participations in other financial sector

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
£'000	£'000	£'000	£'000	£'000

#### Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Other non available own funds

#### Reconciliation reserve

25,539
665
24,874

#### Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

#### Total Expected profits included in future premiums (EPIFP)




# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

### S.25.01.22 Solvency Capital Requirement for Groups on Standard Formula

Article 112 Regular reporting

	Net solvency capital requirement	USP	Simplifications
	£'000	£'000	£'000
Market risk	7,628		
Counterparty default risk	1,775		
Life underwriting risk			
Health underwriting risk	6,671		
Non-life underwriting risk			
Diversification	(4,075)		
Intangible asset risk			
<b>Basic Solvency Capital Requirement</b>	12,000		
<b>Calculation of Solvency Capital Requirement</b>			
Adjustment due to RFF/MAP nSCR aggregation			
Operational risk	1,205		
Loss-absorbing capacity of technical provisions			
Loss-absorbing capacity of deferred taxes			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
<b>Solvency Capital Requirement excluding capital add-on</b>	13,204		
Capital add-ons already set			
<b>Solvency capital requirement for undertakings under consolidated method</b>	13,204		
<b>Other information on SCR</b>			
Capital requirement for duration-based equity risk sub-module			
Total amount of Notional Solvency Capital Requirements for remaining part			
Total amount of Notional Solvency Capital Requirements for ring fenced funds			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
Diversification effects due to RFF nSCR aggregation for article 304			
Minimum consolidated group solvency capital requirement	3,246		

# BHSF GROUP LIMITED

## SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2018

Article 112 Regular reporting

Net solvency capital requirement	USP	Simplifications
£'000	£'000	£'000

### Information on other entities

Capital requirement for other financial sectors (Non-insurance capital requirements)  
*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*  
*Institutions for occupational retirement provisions*  
*Capital requirement for non-regulated entities carrying out financial activities*  
 Capital requirement for non-controlled participation requirements  
 Capital requirement for residual undertakings


### Overall SCR

SCR for undertakings included via D&A

### Solvency capital requirement

13,204

**BHSF GROUP LIMITED****SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2018****S.32.01.22 Undertakings in the scope of the group**

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking
GB	213800ATVVLFNWDW9OT12	LEI	BHSF Group Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC
GB	2138002IE1X75AGYZC39	LEI	BHSF Limited	Non life insurance undertaking
GB	213800VPE916J6DCPG03	LEI	BHSF Employee Benefits Limited	Other
GB	213800GJS3UCHZMDAT34	LEI	BHSF Management Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35
GB	2138007WVTWYTYNOKT81	LEI	BHSF Corporate Healthcare (Holdings) Limited	Other
GB	213800HT1C514KKWPL90	LEI	BHSF Occupational Health Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35
GB	213800VHCS69RC91Z391	LEI	BHSF Medical Practice Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35
GB	213800KAIX4PN5SSGY29	LEI	Nexus Healthcare Limited	Other

**BHSF GROUP LIMITED**

**SOLVENCY AND FINANCIAL CONDITION REPORT**

**FOR THE YEAR ENDING 31 DECEMBER 2018**

Legal form	Category (mutual/non mutual)	Supervisory Authority	Criteria of influence					Inclusion in the scope of Group supervision		Group solvency calculation
			% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	

Limited by guarantee	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by guarantee	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
Limited by shares	Non-mutual		100.00%	100.00%	Centralised risk management	Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method

