

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

CONTENTS

APPROVAL OF THE SOLVENCY AND FINANCIAL CONDITION REPORT	4
SUMMARY	5
SECTION A: BUSINESS AND PERFORMANCE	11
A.1. Business description	11
A.2. Underwriting Performance	15
A.3. Investment Performance	16
A.4. Other Material Income and Expense	16
A.5. Any other information	18
SECTION B: SYSTEM OF GOVERNANCE	19
B.1. General Information on the System of Governance	19
B.2. Compliance with Fit and Proper requirements	30
B.3. Enterprise Risk Management Framework	37
B.4. Own Risk Assessment	41
B.5. Internal control system	44
B.6. Internal Audit Function	47
B.7. Actuarial Function	49
B.8. Outsourcing	50
B.9. Assessment of Adequacy of System of Governance	51
SECTION C: RISK PROFILE	52
C.1. Own risk and Solvency Assessment Methodology	52
C.2. Material risks and Material Changes over the Reporting Period	54
C.3. Assessment Results	55
C.4. Risk Assessment information by Risk Category	56
SECTION D: VALUATION FOR SOLVENCY PURPOSES	73
D.1. ASSETS	74
D.2. Technical provisions	75
D.3. OTHER LIABILITIES	76
D.4. Alternative methods for valuation	76
D.5. Any other information	76
SECTION E: CAPITAL MANAGEMENT	77
E.1. Own funds	77
E.2. Solvency Capital Requirement and Minimum Capital Requirement	78
E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement	79
E.4. Differences between the standard formula and any internal model used	79
E.5. Compliance with the Minimum Capital Requirement and compliance with the Solvency Capital Requirement	79
E.6. Any other information	79
SECTION F: COVID-19 ADDITIONAL INFORMATION	80
BHSF LIMITED SOLO REGULATORY TEMPLATES	86
S.02.01.02 Balance Sheet	86
S.05.01.02 Premiums, Claims and Expenses by line of business	88
S.05.02.01 Premiums, claims and expenses by country	89
S.17.01.02 Non-Life Technical Provisions	90
S.19.01.21 Non-Life insurance claims	91

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

CONTENTS

S.23.01.01 Own Funds	93
S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula	95
S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity	96
BHSF GROUP LIMITED CONSOLIDATED REGULATORY TEMPLATES	98
S.02.01.02 Balance Sheet	98
S.05.01.02 Premiums, Claims and Expenses by line of business	100
S.05.02.01 Premiums, Claims and Expenses by country	101
S.23.01.22 Own Funds	102
S.25.01.22 Solvency Capital Requirement for Groups on Standard Formula	106
S.32.01.22 Undertakings in the scope of the Group	108

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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:



Ian R Galer
Group Chief Executive
15 June 2020

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SUMMARY

Introduction

BHSF welcomes the opportunity to be able to use this Solvency and Financial Condition Report (SFCR) to give its stakeholders 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 three 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 offered by BHSF Employee Benefits Limited. These include BHSF Connect, our app-based health and wellbeing service, and BHSF Rise, a unique case-managed suite of telephone-based assistance services covering physical and mental health, legal, and financial advice.
- 3 Occupational health services offered by BHSF Occupational Health Limited,

During the year ending 31 December 2019, the Group also offered private GP services via BHSF Medical Practice Limited, but has since ceased offering those services.

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.

	2019	2018
	£'000	£'000
Insurance underwriting surplus/(deficit)	224	(1,231)
Net investment result	4,424	(528)
Occupational health and medical statutory loss before tax	(2,455)	(2,627)
Employee benefits statutory profit before tax	(1,146)	712
Administration costs of non-trading entities, including holding companies	(741)	(130)
Gift aid donations	(20)	(22)
Pension scheme costs	36	(499)
Consolidation adjustments*	(4)	(813)
(Deficit)/Surplus on ordinary activities before taxation	318	(5,138)

Underwriting performance improved year-on-year by £1.5m, largely due to capped sales commissions and the implementation of price increases on some products.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SUMMARY (continued)

Investment values finished the year up significantly on the previous year. Combined with the sale of some land, this resulted in unrealised gains of £1.2m and realised gains of £2.6m. Overall the investment result was £5.0m better than the previous year.

The occupational health and medical division saw losses decrease by £0.2m due to the completion of a period of consolidation within the division. Losses would have reduced further, were it not for a difficult start to the Group's offering of private GP services. The difficulty in gaining a foothold in the private GP market resulted in the Group closing this part of its business in early 2020.

Employee benefits losses increased by £1.9m as a result of capped commissions from BHSF Limited and slower than expected sales of the Company's own suite of products.

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 internal control systems;
- (e) Maintaining an appropriate relationship with the Group'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.

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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SUMMARY (continued)

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.

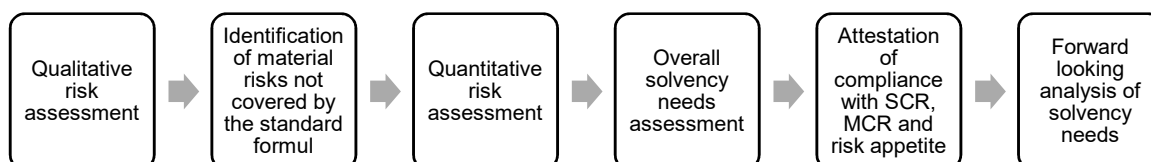
Sections B.1 and B.2 contain further detail on the overarching governance arrangements in place in the Group.

Risk Management

BHSF Group operates an Enterprise Risk Management Framework (ERMF) which 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. Control actions are then deployed, whether to minimise the likelihood and/or impact of the risk(s), or to maximise their opportunity. 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.

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 2019

SUMMARY (continued)

Internal Control System

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

1st Line Business operations	Involved in day-to-day management of risk Apply control activities and risk mitigations
2nd Line Risk, compliance and actuarial	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
3rd Line Internal audit and external audit	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 proportionate and 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;
- Mass Accident risk – the exposure to insurance risk (underwriting risk) following an accident that effects a significant proportion of the UK population; and,
- Accident Concentration risk – the exposure to insurance risk (underwriting risk) following an accident within one building or one company, with 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.

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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SUMMARY (continued)

Market risk

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

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.

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/ Information Security risks; physical assets/ facilities/ Health and Safety risks; financial crime risks; people risks; third party/outsourcer risks; process risks; legal disputes/ legal change risks; and, Business Continuity (BC) and Disaster Recovery (DR) 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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SUMMARY (continued)

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 legacy 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:

	UK GAAP	Solvency II	Difference
	£'000	£'000	£'000
Assets	34,989	32,900	2,089
Liabilities	(9,204)	(8,400)	(804)
Net Assets	25,785	24,500	1,285

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.

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 £24,500k excess of assets over liabilities presented above. The Group SCR is £14,055k while the MCR is £3,337k. The Group therefore remains extremely solvent, having own funds equal to 174% of the SCR and 732% of the MCR.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION A: BUSINESS AND PERFORMANCE

A.1. BUSINESS DESCRIPTION

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.

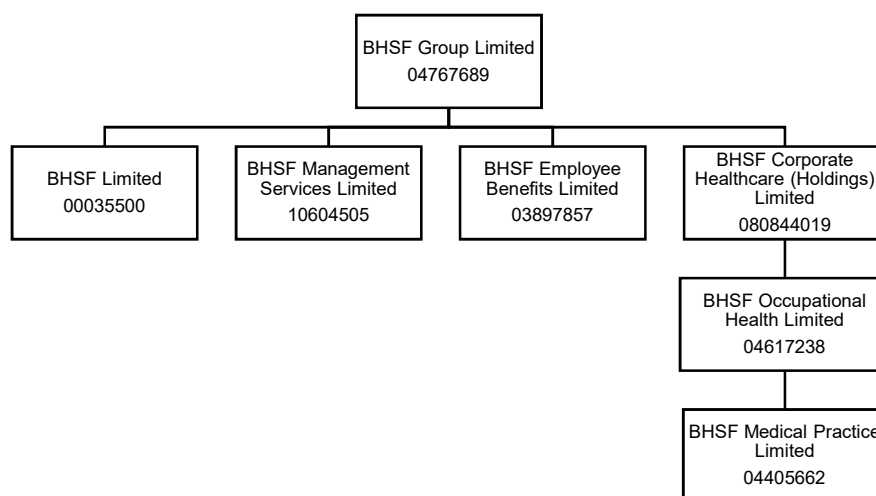
As at 31 December 2019 there was also a single non-trading entity within the Group.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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 2019

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; funeral and bereavement 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; voluntary benefits schemes; confidential telephone helplines in addition to providing access to travel insurance; life insurance; personal accident insurance; and pet insurance through brokering activity. BHSF Employee Benefits Limited supports businesses with the communication of their benefits package to employees.

A.1.6. SIGNIFICANT EVENTS OVER THE REPORTING PERIOD

During the reporting period, BHSF Limited made the significant decision to digitalise its health cash plan business. This involves investment in digital technologies to gradually phase out the use of paper forms, enhance the resilience and efficiency of back-office operations, and improve customer and policyholder experiences. This has the additional benefit of reducing the Group's environmental impact by reducing paper, postal journeys, and sales journeys as we maximise the use of online sales channels.

Despite the significance of the change from an operational perspective, it has not directly resulted in any significant impacts on the profitability or solvency numbers reported in this document. In future years, it is expected that these changes will create a more financially sustainable business.

After the end of the reporting period, a global pandemic was declared in respect of Covid-19. Although not a significant event within the reporting period covered by this document, it is an

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION A: BUSINESS AND PERFORMANCE (continued)

event of such significance to all businesses that a specific section is dedicated to it. See section F for further detail.

BHSF GROUP LIMITED**SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2019****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 4% ahead of the previous year at £41.4m (2018: £39.7m). The result on the technical account was a surplus of £0.2m (2018: deficit of £1.2m). This is due to the implementation of price increases against some products, as well as lower operating costs thanks to the implementation of a sales commission cap.

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

	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Premiums				
Gross premiums written	41,785		40,126	
Outward reinsurance premiums	(505)		(434)	
Change in the provision for unearned premiums	101		35	
Earned premiums net of reinsurance		41,381		39,727
Allocated investment return transferred from the non-technical account		60		56
Claims				
Gross claims	30,261		29,405	
Reinsurer's share of claims	(431)		(325)	
Gross change in technical provisions	128		235	
Reinsurer's share of technical provisions	(102)		(30)	
Claims incurred net of reinsurance		29,856		29,285
Net operating expenses		11,361		11,729
Underwriting (deficit)/surplus per Annual Report and Accounts		224		(1,231)

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION A: BUSINESS AND PERFORMANCE (continued)

A.3. INVESTMENT PERFORMANCE

Investment markets ended 2019 in a much stronger position than they started the year. The FTSE 100 index ended the year 12% higher – a remarkable gain. This, along with other factors including the sale of some land, translated into a strong investment result for the Group.

Investment income, being the interest and dividends earned on the investment portfolio was down 6%, while realised gains, including the land sales, grew to £2.7m (2018: £0.1m). The market increases resulted in unrealised gains of £1.2m compared to losses of £1.2m a year earlier. Investment expenses remained comparable at £0.1m (2018: £0.1m).

The net investment result for the year was therefore significantly higher than that of the previous year – a profit of £4.4m (2018: loss of £0.6m). Based on the opening balance of the portfolio including cash and investment property, this represents a yield of 19% (2018: - 2.5%).

Investment performance can be summarised as follows:

	2019	2018
	£'000	£'000
Investment income	694	736
Realised gains	2,694	91
Unrealised gains/(losses)	1,193	(1,247)
Investment expenses	(97)	(108)
Investment return allocated to the technical account	(60)	(56)
Net investment result	4,424	(584)

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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION A: BUSINESS AND PERFORMANCE (continued)

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

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

	2019 £'000	2018 £'000
BHSF Occupational Health Limited		
Revenue	7,056	5,987
Expenditure (excluding tax)	(8,916)	(8,563)
Loss before tax	(1,860)	(2,576)
BHSF Medical Practice Limited		
Revenue	128	459
Expenditure (excluding tax)	(723)	(510)
Profit/(loss) before tax	(595)	(51)
Total occupational health loss before tax	(2,455)	(2,627)

During 2019 BHSF Group's providers of healthcare services comprised BHSF Occupational Health Limited and BHSF Medical Practice Limited. 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 was completed part-way through the year. Revenue grew year-on-year by nearly 18% and with further growth expected in the future, alongside lower overhead costs, better results are anticipated.

BHSF Medical Practice offered private primary healthcare services from a modern facility in Birmingham city centre. Unfortunately, despite providing excellent services, there was insufficient demand and as a result this part of the business was closed in early 2020.

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:

	2019 £'000	2018 £'000
Revenue	6,747	8,101
Expenditure	(7,893)	(7,389)
Employee Benefits profit before tax	(1,146)	712

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION A: BUSINESS AND PERFORMANCE (continued)

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 decreased significantly by £1.4m from £8.1m to £6.7m as a result of the application of a cap on sales commissions from BHSF Limited and lower than expected sales of replacement product. Expenditure has increased, partly due to one-off costs associated with restructuring of the business to align with the new product focus.

A.5. ANY OTHER INFORMATION

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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

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.

Though not a strict part of its corporate governance structure, the Group's employees are amongst its most important stakeholders. In order to ensure that the views of the employees are taken into account in decision-making, the Group has established a Staff Forum.

BHSF Group operates an effective corporate governance framework. The corporate governance framework is supported by a group-wide ERMF and internal control system.

- **The Enterprise Risk Management Framework (ERMF)** – The ERMF 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. 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 that company. They define the form of the company and the written rules regarding the running of the company. Any changes to a company, and hence the articles of association must be agreed by the members and disclosed to Companies House.

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 2019

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 appoint the directors and the auditors and to satisfy itself that an appropriate governance structure is in place for each of the operating companies.

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 a consistent enterprise risk management framework 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, promoting a risk aware culture, and internal control systems
- (f) Maintaining an appropriate relationship with the Group'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

BHSF Group Board has established operating company boards: BHSF Limited board, BHSF Employee Benefits Limited board; BHSF Management Services board; BHSF Occupational Health Limited board to oversee the direction and the control of the individual operating companies in accordance with their articles of association.

The BHSF Occupational Health Limited operating board provides governance to its trading and non-trading subsidiaries (BHSF Corporate Healthcare (Holdings) Limited; BHSF Newhall Medical Practice Limited; Nexus Healthcare Limited). The board of directors for each operating company is responsible for the governance of that company. The Group

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Board's role in governance of the operating companies is to appoint the directors and the auditors and to satisfy themselves that an appropriate 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 ERMF and internal control system 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 and 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 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Remunerations and Nominations Committee
The Committee is responsible for overseeing the remuneration and nomination arrangements of the Chairman, executive directors and senior management with regulatory functions. It is also responsible for promoting the health and wellbeing of BHSF staff and the embedding of the Group's culture and values. 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.
Investment Committee
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.
Audit Committee
The Committee monitors the integrity of the BHSF Group's financial reporting, including the effectiveness, appropriateness and completeness of the internal control system, and the appointment and effectiveness of internal and external auditors.
Risk and Compliance Committee
The Committee oversees the overall risk strategy, the ERMF, and the risk management policies. It oversees BHSF Group's management of emerging risks and the own risk and solvency assessment policy and results. In addition, the Committee oversees the Compliance strategy, the reporting of Conduct Risk; i.e. complaints, and the Compliance Framework.
Executive Committee
The Committee directs the business on day-to-day operational matters while also overseeing the lower-level implementation by the business of strategic direction given by the Group and operating boards.
Transformation Board
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.

With the exception of the Executive Committee and the Transformation Board, the above committees are made up entirely of independent non-executive directors. 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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

- 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
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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 line with the Corporate Governance Code¹ there is a clear division of responsibilities between the running of the board and the executive responsibility for running the Group'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.

¹ Note that BHSF Group is not required to follow a specific corporate governance code, but does aim to implement corporate governance best practice in a proportionate way. Therefore, we will occasionally refer to the UK Corporate Governance Code or other best practice framework as appropriate.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

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.

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 provide challenge to the executive leadership team, ensuring that strategies are well thought-out and the business is being run responsibly. In addition, they are responsible for reviewing the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. Independent non-executive directors ensure the integrity of financial information and 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.

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 channels of Group Chief Executive or Chief Finance Officer. The SID also acts as a confidential point of contact for 'whistle-blowers' within BHSF.

B.1.6.7. BOARD COMMITTEE CHAIRMEN

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

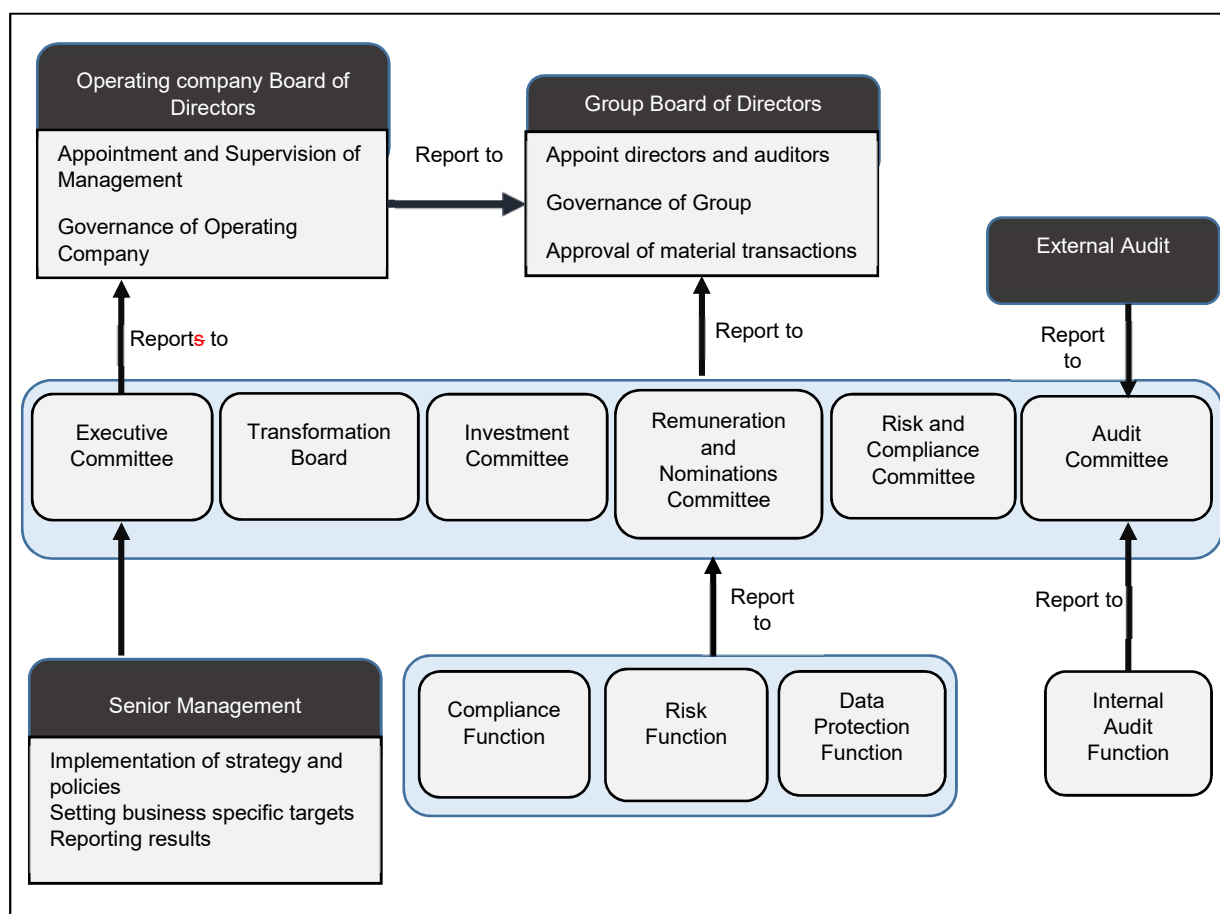
SECTION B: SYSTEM OF GOVERNANCE (continued)

The committee chairmen 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

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 operating company boards.

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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

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 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.

Fixed benefits	
Salary	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: <ul style="list-style-type: none">• Salary increases for all employees• The performance and experience of the employee• Group or division performance

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Fixed benefits	
	<ul style="list-style-type: none">• Internal relativities• Economic factors such as inflation• Benchmarking of employee package against similar industry roles
Benefits	Executives and Senior Managers are offered benefits which reflect their standing within the organisation including: <ul style="list-style-type: none">• Car allowance• Health and wellness benefits• Life assurance benefits
Provision for retirement income	Executives and Senior Managers are offered the option to receive payments into a defined contribution scheme. The Group makes a contribution provided the employee contributes at least 3%
Variable benefits	
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 promote risk-taking behaviour that falls outside of risk appetite or behaviours which are not aligned with BHSF's culture or values. 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.
Termination Payments	
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.	
Processes and controls	
Performance management	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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Processes and controls	
	Below senior management level objectives are set on an annual basis through a formal appraisal process, which covers both performance and behaviours.
Variable pay limits	Variable payments are only provided to sales-based employees within BHSF Employee Benefits Limited.
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 39% 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

Independent non-executive directors' benefits	
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, for example in relation to attendance at board and committee meetings. The costs associated with these are all met by the Company.
Chairman	
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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Chairman	
Expenses	Travel and expenses for the Chairman are incurred in the normal course of business, for example in relation to attendance at board and committee meetings. The costs associated with these are all met by the Company.
Other benefits	N/A

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.

Processes and controls	
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

Sales Staff	
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 or behaviour contrary to BHSF culture or values 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 ample oversight by the Group Board in an ongoing programme of significant transformation in business processes.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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, audit, company secretariat and finance); 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 GROUP

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

Processes and controls	
Role description	For all existing and new key person roles, 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, 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 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Processes and controls	
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.

Processes and controls	
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 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Processes and controls	
	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"> (i) has been an employee of any company within the Group within the last five years (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 (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 (iv) has close family ties with any of the Group's advisers, directors or senior employees (v) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies (vi) has served on the Group Board for more than nine years from the date of their first election.
Appointment of new independent non-executive directors	<p>Appointments are made, on merit, against objective criteria (eg 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. Alongside this it means ensuring that the board has appropriate</p>

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Processes and controls	
	<p>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

Role	Key Senior Insurance Manager Regime Function	Responsibilities
<p>Chief Executive Officer <i>Ian Galer</i></p>	<p>Chief Executive Function</p>	<p>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.</p>

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Role	Key Senior Insurance Manager Regime Function	Responsibilities
		<p>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</p>
<p>Chief Finance Officer <i>Tom Ross</i></p>	<p>Chief Finance Function Chief Actuarial Function Investment Function</p>	<p>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.</p> <p>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</p>
<p>Chief Operations Officer <i>Geoff Guerin</i></p>	<p>Claims Function Head of Key Business Area- BHSF Limited, BHSF Occupational Health</p>	<p>The Chief Operations Officer has responsibility for the management of BHSF Limited within profit and loss targets and risk appetite tolerances.</p> <p>Key accountabilities include the management of the medical expense insurance business including health cash plans, personal accident insurance and the personal cancer plans. This includes making underwriting decisions and managing reinsurance relationships</p>

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Role	Key Senior Insurance Manager Regime Function	Responsibilities
		and ensuring quality customer service activity
Chief Commercial Officer <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
Chief Information Officer <i>Adrian Hope</i>	IT 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
Chief Medical Officer <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
Head of Technical Underwriting <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. This includes making underwriting decisions
Head of Risk <i>Adam Lea</i>	Chief Risk Function	The Head of Risk has responsibility for the overall Enterprise Risk Management Framework (ERMF). Key accountabilities include assisting the board and other functions in the effective operation of the ERMF and continuous monitoring and improvement (where required) of the ERMF; detailed reporting on risk exposures and advising the Group Board on risk management matters, including in relation to strategic affairs; identifying emerging risks; assessing the performance of BHSF Group's own risk and solvency assessment; and reviewing on an annual basis risk management policies.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

Role	Key Senior Insurance Manager Regime Function	Responsibilities
Head of Compliance <i>Louise Eden</i>	Head of Compliance Function	The Head 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. 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.
Head of Internal Audit	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.

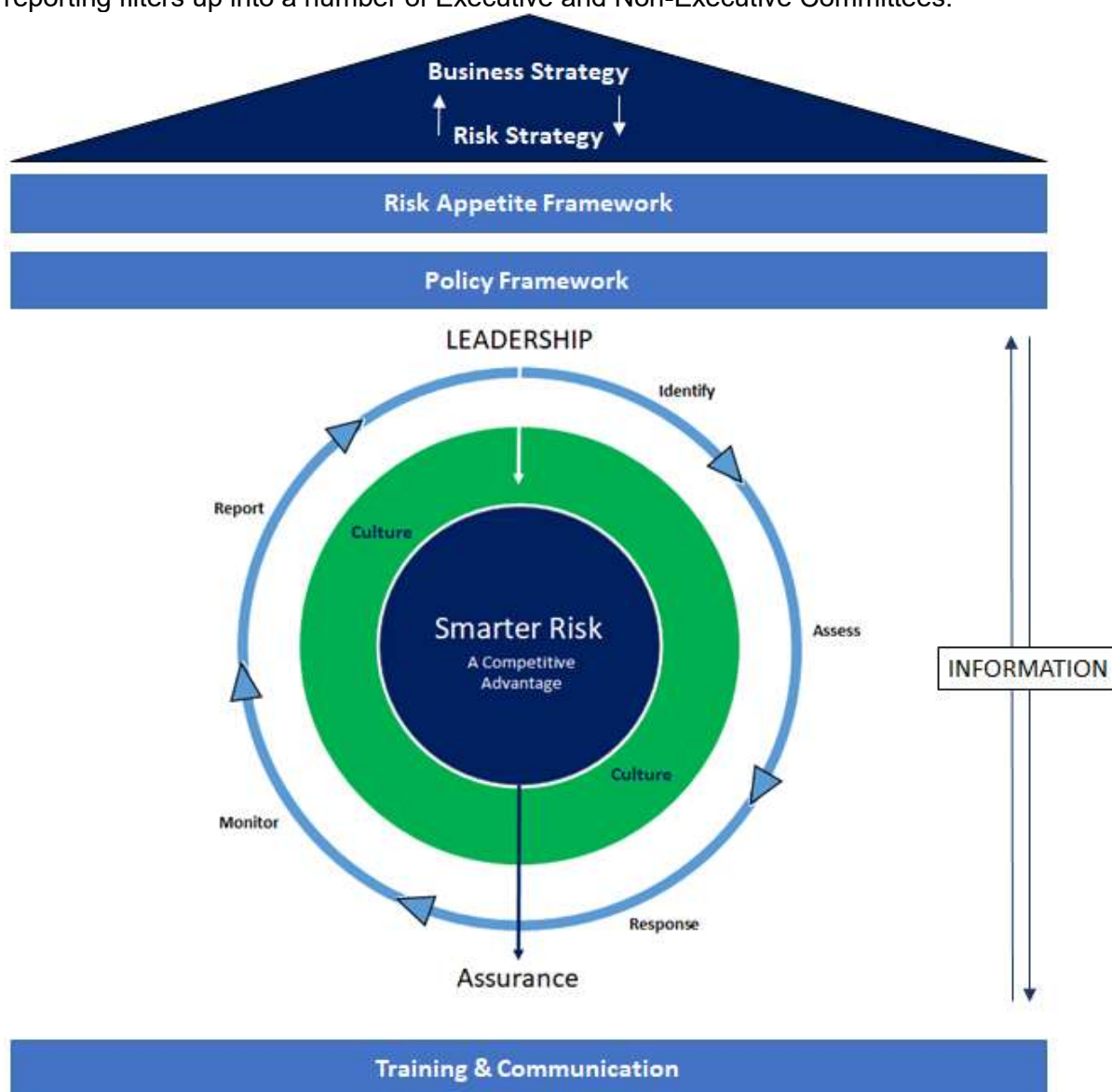
Non-Executive Directors	Senior Insurance Manager Regime key functions
Andrew Milner	Chairman
John Hardy	Chair of Risk and Compliance Committee Chair of Investment Committee
Gary Cowdrill	Chair of Audit Committee
Chris Wiggin	Chair of Remuneration and Nominations Committee
Gary Cowdrill	Senior Independent Director

B.3. ENTERPRISE RISK MANAGEMENT FRAMEWORK

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 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 Committees.



BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

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 overall level and types of risk individually and in aggregate that the Board is willing to take (or not take) in pursuit of the business strategy. 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 high level, the Group Board defines whether it will accept the risk, reject the risk or determine to transfer the risk.

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 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 principal 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 risks to which the Group is exposed. These include the regulated (Solvency II) risks.

- 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

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 response, risk monitoring, risk reporting and disclosure, and decision making.



B.3.4.1. EMERGING RISK IDENTIFICATION PROCESS

BHSF Group defers to the Lloyds of London definition of Emerging Risk. 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 and COSO ERM.

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 is maintained for each risk category

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. 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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

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;
- Significant new product developments;
- Business planning; and
- Acquisition

For significant decisions, outside of Group Board approved delegated authority limits, analysis risk assessment is undertaken to establish the possible implications of the proposal in terms of solvency position and overall risk status.

- 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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

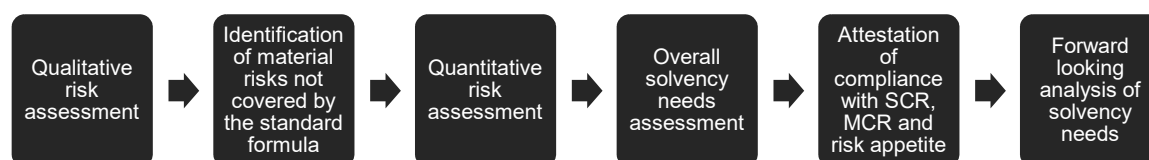
B.4. OWN RISK ASSESSMENT

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 2019

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.

Report Title	Report Description
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, one released to the regulator.
ORSA disclosure	<p>Disclosure and information including:</p> <ul style="list-style-type: none">(a) The qualitative and quantitative results of the own risk and solvency assessment process and the conclusions drawn by company from those results;(b) The methods and main assumptions used in the own risk and solvency assessment process;(c) Information on the Group's overall solvency needs and a comparison between those solvency needs, the regulatory capital requirements and the Group's own funds;(d) Qualitative risk profile of the business, along with identified emerging risks, utilising the established processes;(e) A qualitative assessment of weaknesses in the business model, along with assessment of the Group's business strategy;(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. <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 2019

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)

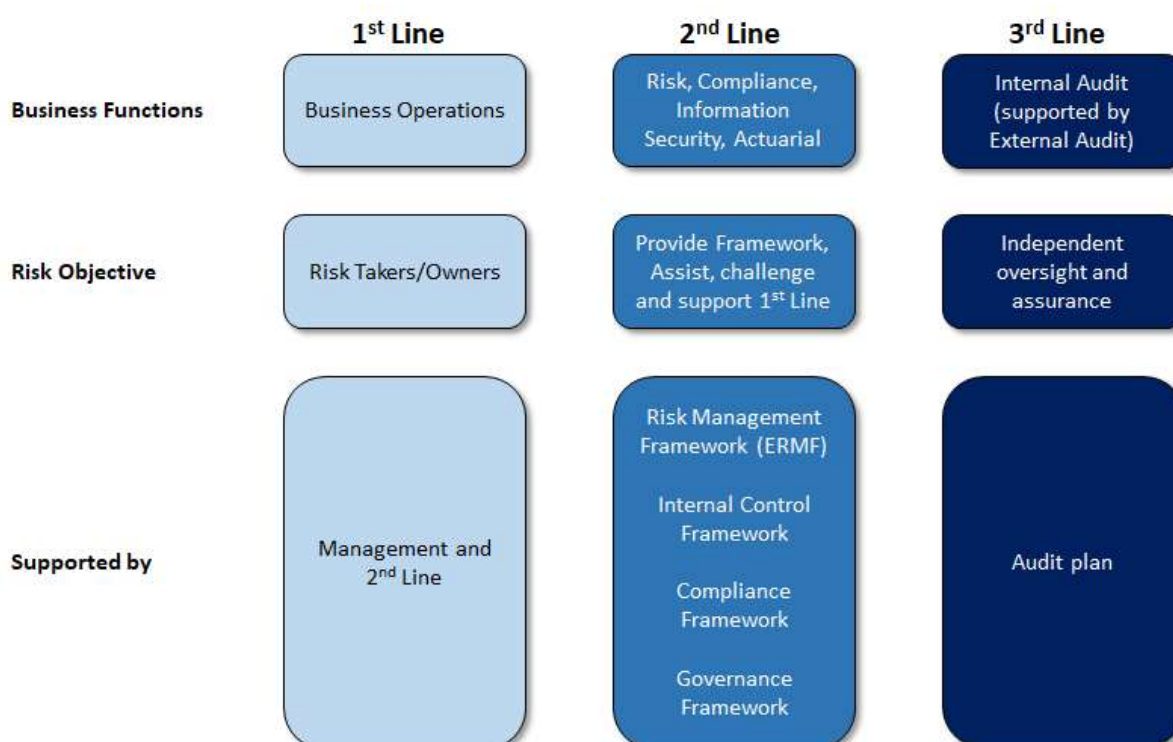
B.5. INTERNAL CONTROL SYSTEM

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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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) Owns the 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 Executive meetings, along with Board meetings for Risk-specific agenda items; 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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

compliance program, functioning as an independent and objective body that reviews and evaluates compliance issues/concerns within the BHSF Group.

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 Group 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 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:

- Board & Committee meeting administration – managing the corporate governance calendar, informing attendees, preparing agendas, collating and distributing papers, taking minutes for board meetings, board committees and company conferences, and managing the written resolution process for Board decisions made outside of meetings
- Company record maintenance – drafting forms required for company formation, company constitution and special resolutions, and maintaining statutory books

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

- Companies House communications – lodging required notifications with Companies House, filing annual returns and the annual report & accounts, and dealing with correspondence from the Registrar.
- Supporting the Board & Committee Chairs and maintaining good information flows between the Board and its Committees, and between executive and non-executive directors

B.6. INTERNAL AUDIT FUNCTION

Internal audit provides independent objective assurance and consulting activity designed to add value and improve 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 Group

The internal audit service supplier is accountable for:

- (i) Establishing an audit plan in consultation with the Group
- (ii) Implementing and maintaining the audit plan
- (iii) Issuing recommendations to the Group's Audit Committee
- (iv) Periodically reviewing the implementation of 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) Ensuring the Audit Committee and BHSF staff are kept informed of regulatory and governance best practice developments.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

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
- (b) Take into account the system of governance, the internal control system and the enterprise risk management framework of the Group through liaison with the Head of Risk
- (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, this must be agreed with the Audit Committee and board prior to implementation.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

B.7. ACTUARIAL FUNCTION

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 Group's ERMF 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.

In early 2020, the Group has partnered with Barnett Waddingham, a large and well-respected firm of consulting actuaries in order to commence outsourcing parts of the actuarial function.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION B: SYSTEM OF GOVERNANCE (continued)

B.8. OUTSOURCING

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 2019

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.

B.9. ASSESSMENT OF ADEQUACY OF SYSTEM OF GOVERNANCE

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 ERMF and the internal control system). In 2019, this exercise found no issues which indicate the system of governance is not adequate for an organisation of BHSF Group's size and nature.

BHSF Group has made significant developments to its governance system over the past few years. During 2019, improvements to governance arrangements have continued, and in particular there have been large improvements in the embedding of risk awareness, management, and reporting through all levels of the organisation. The Group remains committed to further improving governance in the coming 12 months.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE

C.1. OWN RISK AND SOLVENCY ASSESSMENT METHODOLOGY

C.1.1. CHANGES TO METHODOLOGY OVER REPORTING PERIOD

The 2019 methodology used to determine the own solvency needs deviates from the standard formula model, in so far as it separates out employee pension risk.

Standard formula stresses are used where the Group 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.

In particular, 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.

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 principal risks can also be called the correlation between principal 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 a number of key assumptions. These include the failure of the underwriting business to meet performance expectations and the outright failure of one or more non-insurance parts of the Group.

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 three-year 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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

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 identify key stresses to apply to the business model in assessing forward-looking capital needs.

The reverse stress testing scenarios include a number of factors which combine to undermine the ability of the Group to continue to transact under normal conditions. These include:

- Significant decreases in insurance premiums;
- Increases in the level of insurance claims; and
- Failure of business units other than the insurance business.

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?

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

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

Please note, elements relating specifically to coronavirus are documented in section F. Over the reporting period and progressing into 2020, 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). 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) **Investment market volatility** – the ongoing negotiations around new future trading between the UK and the EU, as well as Covid-19 create significant uncertainty which restrict the ability of the Group to confidently invest in the future.
- 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 Limited. However, owing to the susceptibility of such data, BHSF Group has a purposefully robust data protection processes and as a result holds an ISO27001 information security accreditation.
- d) **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 presents further risk elements.
- e) **Failure of BHSF Group to meet strategic objectives** – BHSF Limited is currently susceptible to fluctuations in IPT and claims ratio increases, owing to its concentration risk emanating from the health cash plan business. With reference to the non-insurance entities, a number of ambitious sales targets and low profit margins exist in the employee benefits and occupational health businesses, which could cause this risk to crystallise.

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 2019

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.

	2019 Annual	2018 Annual	Change
Solvency Margin Group (% SCR)	174%	193%	-19%
Solvency Margin Group (% Own Solvency Needs)	160%	176%	-16%

The decrease in solvency ratios above is a result of the losses outside of the insurance business outlined in section A.

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.

	2019 Annual	2018 Annual	Change
Solvency Margin BHSF Limited (% SCR)	194%	173%	21%
Solvency Margin BHSF Limited (% Own Solvency Needs)	176%	157%	19%

The growth in the year is due to the underwriting profit and strong investment result in the year, as outlined in section A.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

C.4. RISK ASSESSMENT INFORMATION BY RISK CATEGORY

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
Premium and Reserving Risk	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.
Lapse Risk	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.
Mass accident	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.
Accident concentration	Accident concentration risk relates to the exposure to insurance risk following an accident within one building or within one company by the

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

Risk category	Description of exposure
	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.
Pandemic Note, this risk category is highlighted in the coronavirus section F.	A specific pandemic exclusion now exists within some HCP policies, but a number 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 hospital stays or other treatments resulting from infectious diseases.

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.

C.4.1.4. MITIGATION AND CONTROL

Product selection: Desired business lines have been identified and no underwriting takes place outside of these lines of business.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

Reserving: Claims, lapse and profitability data is analysed on a regular basis. This is used to validate the reserving assumptions.

Reinsurance: Where the Group 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.

Pricing: An actuarial quote engine is used to price many products, which had recently undergone a full review by Grant Thornton as part of a wider underwriting project. The profitability of products is monitored in order to ensure that products do not become unviable and a sustainable surplus is generated to maintain solvency for the business.

Claims management: All claims over a certain level 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. The underwriting function is well versed in the terms and conditions of the product suite, along with the pricing sensitivities involved.

Pandemic exclusion: In 2019 we began to include pandemic exclusions within Health Cash Plans as they renewed. As such, this does not extend to all policies in force at the time Covid-19 impacted the business in 2020. For more information on the impact of Covid-19, please see section F.

C.4.1.5. SUMMARY OF MOVEMENT OVER THE REPORTING PERIOD

Premium/Reserve risk has increased due to an increase in premiums and claims over the course of the year. Catastrophe risk has remained relatively static owing to some changes in the underlying Solvency II calculation methodology, offset by growth in the number of policyholders.

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
Concentration	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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

Risk category	Description of exposure
	related issuers. The exposure depends on the exposure to each counterparty, weighted against a credit quality factor.
Interest rate	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
Equity risk	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
Property	The BHSF property portfolio consists of 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.
Spread	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.
Currency	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.

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 principles 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 (the insurance scheme liabilities are currently covered by cash deposits).
- 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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

of sustainability of the Group. (Cash is held to cover all insurance scheme liabilities and therefore the policyholders do not have a stake in the investments).

- 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

Experienced investment manager: BHSF Limited uses a third party, UBS, to manage all of its assets. 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. Recently, this role was put out for tender, with a number of potential alternatives screened and interviewed, providing a thorough assessment of suitability. UBS was chosen to continue its role.

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 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.

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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

C.4.2.5. SUMMARY OF MOVEMENT OVER THE REPORTING PERIOD

Market risk components have remained relatively stable over 2019.

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 Group.

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 Group 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: <ul style="list-style-type: none">• 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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

Risk category	Qualitative description of exposure
Type Two Counterparty Default	<p>Type two counterparty default is the exposure of the Group 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">• 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.• Policyholder debtors, however stops can be made on claims payments following the default of a policyholder.• 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.• Other customer debtors, BHSF has exposure to occupational health trade debtors.

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 banking regulations.
- 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.
- No direct derivative counterparties may be used. Some hedging arrangements within collective investments funds that are assessed on a "look through" basis are tolerated.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

- 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.4.3.4. MITIGATION AND CONTROL

Counterparty selection: Only board approved banking 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 approves any significant change to counterparty arrangements.

Due diligence: Credit assessments are undertaken for each proposed banking 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 Group; (c) the counterparty's 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 Group to find an alternative solution; e) that the Group is able to terminate the arrangement where necessary without detriment to the continuity and quality of its provision of services to policyholders; and (f) that the counterparty shall protect any confidential information relating to the Group 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 potentially impaired when they are more than three months overdue and without a payment plan in place or there are other indicators of impairment.

C.4.3.5. SUMMARY OF MOVEMENT OVER THE REPORTING PERIOD

Counterparty default risk has grown over the year due to increasing trade debtor balances, particularly in the Occupational Health business. For BHSF Limited as a single entity, support to BHSF Occupational Health in the form of intra-group debt has grown, which has increased counterparty default risk in the business.

C.4.4. EMPLOYEE PENSION FUND RISK

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

C.4.4.1. 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 Group 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 Group. 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.

C.4.4.2. QUALITATIVE ASSESSMENT

Risk Category	Application to BHSF
DB Scheme	<p>This risk relates to the Group'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 Group 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 Group. 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 Group is required to pay additional contributions over a period of time agreed with the Trustees.</p> <p>BHSF has an obligation to address any deficits in the DB pension scheme.</p>

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

Risk Category	Application to BHSF
	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

C.4.4.3. 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.

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.

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.4.4.4. SUMMARY OF MOVEMENT OVER THE REPORTING PERIOD

The triennial review, carried out in 2017, re-estimated the deficit as £48k which was a significant reduction from the previous assumption. The pension fund performance over 2017 continued to contribute to the reduction of the deficit. Throughout 2018 and 2019, the risk response has seen a monthly payment made into the DB Pension fund. The next triennial valuation in 2020 will revise the funding requirements of the scheme. It is worth noting that Covid-19's effects on the financial markets are likely to affect this valuation. See Section F for further information.

C.4.5. OPERATIONAL RISK

C.4.5.1. OVERVIEW

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

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.4.5.2. QUALITATIVE ASSESSMENT

Risk category	Qualitative description of exposure
Information Technology	Risks that emanate from the use, ownership, operation, involvement, influence and adoption of IT within BHSF Group.
Information Security	Risks that emanate from the potential loss and/or misuse of company data including 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. Furthermore, Information Security risk, and the mitigations in place, will cover the impact from a cyber-attack (i.e. the immediate electronic intrusion and impact on data and systems).
Physical Assets	<p>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. BHSF Group outsources to Dovetail Group for a Total Facilities Management (TFM) programme (note, this does not include Fleet).</p> <p>Premises:</p> <ul style="list-style-type: none">• Gamgee House: used by BHSF Ltd and BHSF EB Ltd, and BHSF MS Ltd, and BHSF Group.• Lyndon House: Birmingham - used by BHSF OH Ltd and BHSF EB Ltd.• Rented medical premises in Belfast, Newcastle, Liverpool, London, and Birmingham City Centre <p>Car Fleet:</p> <ul style="list-style-type: none">• Fleet management by external service provider including MOTs and services.• Employee Benefits employees, senior managers and directors have company car allowances and some have company cars. <p>Other physical assets:</p> <ul style="list-style-type: none">• Post room equipment, cheques, consumables (ink, paper etc.) <p>Clinical equipment (BHSF OH Ltd and Medical Practice) - medical equipment is stored on site. Clinical equipment includes audio booths valued at circa £10k and other expensive equipment some of which has special storage requirements.</p>
Financial crime	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. 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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

Risk category	Qualitative description of exposure
People	<p>Risks emanating from and to people within BHSF Group.</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>
<p>Conduct</p> <p>(captured as a separate risk category, but included in Operational Risk for ease of reporting)</p>	<p>Risks emanating from an action or inaction by an employee and / or firm which results in a failure to deliver fair customer outcomes. This may cause customer detriment or affect market integrity. Examples include:</p> <ul style="list-style-type: none"> • Distributing misleading or inaccurate financial promotions; • Old and new product flaws; • Inaccurate or incorrect pre and post-sale information; • Untimely or unfair handling of claims or complaints; • Medical malpractice (Occupational Health and Medical Practice). <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 and BHSF MP Ltd. Examples include:</p> <ul style="list-style-type: none"> • Insurance Distribution Directive (IDD) • Insurance Conduct of Business sourcebook (ICOBS) • Consumer Rights Act 2015 • Insurance Act 2015 (consumer contracts) • Financial Services and Markets Act 2000- regulated activities order • FCA handbook (applicable chapters only) and PRA rulebook (applicable sections only). • General Data Protection Regulation <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. These include:</p> <ul style="list-style-type: none"> • Quality management standards ISO 9001:2015 <p>Standards for safe, effective, and quality occupational health standards SEQOHS.</p>
Supplier / Outsourcer	<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"> • Supplier risk: The risk of losses stemming from a failure of operations resulting from a supplier not meeting expected quality standards. <p>Outsourcing risk: The risk of losses stemming from a failure of operations resulting from an outsourcer not meeting expected quality standards.</p>
Process Risk	<p>Risks emanating from the failure of day-to-day operations of the business, inherently reliant on defined processes that can be replicated multiple times per day, week, month, etc. Examples include:</p> <ul style="list-style-type: none"> • Payroll • Claims payment • IT setup of a new user <p>Administration of policies and changes.</p>

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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">• Distant marketing directive• Consumer rights act 2015• Insurance Act 2015 (consumer contracts)• Financial Services and Markets Act 2000- regulated activities order• FCA handbook• PRA Rulebook• GDPR• UK Bribery Act 2012• Criminal Justice Act 1993• Data Protection Act 1998• HMRC Disputes• Directors' and Officers' Liability• Employers' Liability <p>BHSF Medical Practice is also a regulated entity, according to medical practice legislation and Care Quality Commission (CQC).</p>
BCM / DR Risk	<p>Risks emanating from external events, such as flood, severe snow, terrorist attack, etc. along with the ability for the Group to respond to these risks and maintain Operational Resilience and reduced impact to the Business Strategy. In addition, Disaster Recovery may well be initiated following a cyber-attack.</p>
Health & Safety	<p>Risks emanating from the potential for harm to our staff, visitors and the local community where BHSF Offices might be located. BHSF Group outsources to Dovetail Group for a TFM programme, which includes an audit and response to our Health & Safety risks around the business, including OH and MP.</p>

C.4.5.3. 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.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

- 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.4.5.4. MITIGATION AND CONTROL

Information Technology Risk	Incident logging and Incident tracking; Disaster recovery plan Maintenance programmes; Change requests management; Development testing; Managed IT patching; Various insurances; ISO27001 accreditation.
Information Security Risks	Third party data information security review; Network security - managed firewall with intrusion detection system (IDS); Managed Antivirus (Kaspersky AV); Password control; Two-factor authentication access control; Managed file transfer; Data subject consent; Data cleansing; Disablement of removable media ports; Data backups and recovery plan; Cyber insurance.
Physical Assets Risk	Total Facilities Management (TFM) programme (Dovetail Group); Premises Security; Lease contracts; Business continuity plan (BCP); Insurance arrangements; Building inspections.
Financial Crime Risk	Access control and password protection; Management Review of outward supplier payments; Gift and bribery procedure; Transaction limits; Claims authorisation and investigation; System flags for previous fraudulent behaviour; Automated claims payment; Management sample checking; Segregation of duties.
People Risk	Fit and proper controls (i.e. DBS checks); Succession planning; Performance management; Training needs analysis; Insurances (i.e. professional indemnity); Defined Lone Worker policy.
Conduct risk	Quality assessment Professional indemnity insurance; Clinician right to practice checks (i.e. DBS checks);

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

	Complaints management; Call monitoring (approx. 7 calls per sales person, per month); Sales controls (i.e. annual assessment of each sales person); Contact centre staff training; Remuneration policy; Marketing materials quality control; Policyholder communications compliance control (i.e. 2 nd Line of Defence oversight).
Third party risk	Due diligence process; Conflicts of interest management; Outsourced Service Contractual agreements; Board oversight; Outsourcer auditing and monitoring; Supplier review; Service level agreements; Supplier relationship managers; Supplier monitoring.
Process risk	How to guides.
Legal and Regulatory	Legal advisors (i.e. in various specialisms, inc. GDPR, Employment, etc.); Group insurances; Regulatory change monitoring.

C.4.5.5. 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 Group.

A number of Operational Risk scenarios were conducted during Risk Workshops in Q3 2018. 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 2019 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 2020.

C.4.6. GROUP RISK

C.4.6.1. 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 GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

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.

C.4.6.2. QUALITATIVE ASSESSMENT

Risk category	Qualitative description of exposure
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.4.6.3. MITIGATION AND CONTROL

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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

SECTION C: RISK PROFILE (continued)

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.

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 2019

SECTION D: VALUATION FOR SOLVENCY PURPOSES

For both the BHSF Group and BHSF Limited balance sheets, this section sets out the differences between the regulatory balance sheets under Solvency II and the balance sheets appearing in their respective statutory annual reports and accounts as prepared under UK Generally Accepted Accounting Practice (UK GAAP).

Besides the differences set out in this section, there are no material differences between the Solvency II balance sheets and the UK GAAP balances sheets. For further information on the valuation methods for those assets and liabilities which are not discussed in detail in this section (because there is no difference between Solvency II and UK GAAP) see Appendix A, which outlines the Group's accounting policies.

Note also that Appendix B includes full BHSF Group and BHSF Limited regulatory balance sheets (labelled as template S.02.01).

BHSF Group - Bridge between UK GAAP and Solvency II Balance Sheets

	UK GAAP £'000	Intangibles (A) £'000	Technical Provisions (B) £'000	Group Boundary (C) £'000	Solvency II £'000
Assets	34,989	(888)	-	(1,201)	32,900
Liabilities	(9,204)	-	(397)	1,201	(8,400)
Net Assets ²	25,785	(888)	(397)	-	24,500

BHSF Limited - Bridge between UK GAAP and Solvency II Balance Sheets

	UK GAAP £'000	Intangibles (A) £'000	Technical Provisions (B) £'000	Solvency II £'000
Assets	32,928	(532)	-	32,396
Liabilities	(6,240)	-	(397)	(6,637)
Net Assets ²	26,688	(532)	(397)	25,759

(A) Intangible assets represent the value of investments in software and systems. They also include 'goodwill', which arises on the balance sheet of the buyer when one company buys another. The Solvency II regulations state that goodwill and most other intangibles should be valued at nil. 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 £888k and BHSF Limited's assets by £532k.

² In statutory annual reports and accounts, 'net assets' is referred to as 'accumulated fund'. In the Solvency II balance sheet, 'net assets' are referred to as 'excess of assets over liabilities'. These terms are all interchangeable.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2017

SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

(B) There are two main differences between the Solvency II definition of technical provisions and the UK. These are explained in detail in the Technical Provisions section below.

(C) 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;
- BHSF Corporate Healthcare (Holdings) Limited; and
- Nexus Healthcare 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 appears to decrease both assets and liabilities by an equal amount; in this case, £1,201k.

This adjustment does not affect BHSF Limited's individual numbers

D.1. ASSETS

As outlined above, the valuation of most asset classes does not differ between Solvency II and UK GAAP balance sheets. For readers who wish to better understand the underlying valuation bases for assets, the table below outlines this at a high level and cross-refers to the relevant accounting policy in Appendix A.

Asset Class	Valuation Method	Accounting Policy
Goodwill	Nil ³	A
Intangible assets	Nil ³	D
Deferred tax assets	Amortised cost	F
Property, plant & equipment for own use	Property – Market Value	C
	Other – depreciated cost	B
Property other than for own use	Market Value	C
Participations and related undertakings	Aggregation ⁴	
Equities - listed	Market Value	E
Equities - unlisted	Market Value	E
Government Bonds	Market Value	E
Corporate Bonds	Market Value	E
Collective Investment Undertakings	Market Value	E
Reinsurance recoverables	Amortised cost	F
Insurance receivables	Amortised cost	F
Trade receivables	Amortised cost	F

³ See adjustment (A) in the previous section.

⁴ See adjustment (C) in the previous section. This is the aggregated assets and liabilities of a number of subsidiary companies. Those underlying asset and liabilities are valued in line with the methods set out in sections D.1 and D.3.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2017

SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

Cash and cash equivalents	Face Value	F
Any other assets not elsewhere shown	Stock – Cost	G

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.

	Solvency II	UK GAAP	Difference	
	£'000	£'000	£'000	
Claims Provision	2,089	2,089	-	D.2.1
Premiums Provision	257	364	(107)	D.2.2
Risk Margin	504	-	504	D.2.3
Total technical provisions	2,850	2,453	397	

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.

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 UK 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

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2017

SECTION D: VALUATION FOR SOLVENCY PURPOSES (continued)

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 £107k.

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 £504k 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.

D.3. OTHER LIABILITIES

As outlined above, the valuation of most liability classes does not differ between Solvency II and UK GAAP balance sheets. For readers who wish to better understand the underlying valuation bases for liabilities, the table below outlines this at a high level and cross-refers to the relevant accounting policy in Appendix A.

Liability Class	Valuation Method	Accounting Policy
Other provisions	Amortised Cost	F
Pension benefit obligations	Projected Unit Method	H
Deferred tax liabilities	Amortised Cost	F
Trade payables	Amortised Cost	F

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 2019

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 and 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".

	BHSF Group	BHSF Ltd
	£'000	£'000
Assets	32,900	32,396
Technical Provisions	(2,850)	(2,850)
Other liabilities	(5,550)	(3,787)
Excess of assets over liabilities	24,500	25,759

The reconciliation reserve represents the accumulated profits over the entire trading history of the Group. 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 raise capital from other sources means that the Group manages its capital resources conservatively. The Group'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	BHSF Ltd
	£'000	£'000
Opening own funds	25,539	22,462
Total comprehensive income/(expenditure)	(787)	3,772
Solvency II adjustments	(252)	(475)
Closing own funds	24,500	25,759

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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.

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.

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

	BHSF Group	BHSF Limited
	£'000	£'000
Market Risk	7,817	7,785
Health Risk	6,785	6,785
Counterparty Default Risk	2,499	1,498
Diversification	(4,525)	(3,976)
Operational Risk	1,257	1,257
Group additional	222	0
Solvency Capital Requirement	14,055	13,349
Own Funds	24,500	25,759
Solvency Ratio	174%	193%

This result indicates the Group and BHSF Limited is in a strong capital position, having enough capital to suffer an extremely severe shock and still remain compliant with the SCR and able to continue serving policyholders.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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 2019 as follows:

	BHSF Group	BHSF Limited
	£'000	£'000
Minimum Capital Requirement	3,337	3,337

Given the strong solvency ratio reported above, the Group's ratio of own funds to minimum eligible capital requirement is extremely high at 732% (and 769% 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

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

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

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

E.6. 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 2019

SECTION F: COVID-19 ADDITIONAL INFORMATION

Article 54 of the Solvency II directive requires firms to provide updates when a 'major event' takes place. Though in a general context the Covid-19 pandemic is a major event, based on a scenario analysis undertaken **it is not considered likely that the pandemic will lead to any non-compliance with the Solvency Capital Requirement or Minimum Capital Requirement.**

Nevertheless, it is useful for readers of this document to understand the potential impacts of Covid-19 on BHSF Group and its risk profile.

Operational Impacts

Over the last few years, BHSF Group has invested heavily in new systems and digitalisation of its business. This has provided a robust operational resilience capacity, which enabled the business to transition to a business continuity and remote working model seamlessly, upon the implementation of UK Government 'lockdown' measures. Thus, continuity of day-to-day operations to service policyholders has been well preserved.

The Group employs a large travelling sales force in its employee benefits business. Though efforts have been made to shift as much work as possible to telephonic and online delivery models, there are some types of sales activity which cannot be delivered in this way. This has been built into robust scenario analysis and output.

In addition, the occupational health work undertaken is people-oriented in its nature. Though efforts have been made to shift as much work as possible to telephonic and online delivery models, there are some types of occupational health work which cannot be delivered in this way because physical examination or intervention is required. This has been built into robust scenario analysis and output.

Underwriting Impacts

Although there is operational certainty, as an insurer in the health and wellbeing sector, the Group faces a significant degree of uncertainty as to the level of claims it will have to pay as a direct result of the pandemic. In particular, a large number of the Group's health cash plan policies provide benefits to policyholders in the event they are hospitalised. Therefore significant levels of hospitalisation could result in a significant level of claims for the business in 2020. Furthermore, during any period of lockdown, it is expected that non-emergency optical and dental claims will decrease significantly. In our experience with previous periods of reduced claims activity (e.g. adverse weather closures), we expect to see a significant spike in such claims upon the reduction in such measures as policyholders catch up on missed appointments. As before, this has been built into robust scenario analysis and output.

Again, the Group is well prepared for such an eventuality given the overall solvency ratio of 174%.

Market Impacts

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

Since the pandemic emerged there has been significant volatility on financial markets where the Group places assets not required for day-to-day operations.

In particular, equity markets have suffered some of their greatest falls since the late 1980s. The Group maintains a balanced portfolio comprising several asset classes precisely to provide some insulation from the full force of market movements in one asset type. At the end of the first quarter of 2020, investment losses resulting from market movements totalled £2,180k.

Given the level of falls seen in the first quarter, it is hoped that by the end of 2020 the overall impact will be smaller than this, however there is clearly significant uncertainty around this.

Profitability Impacts

Covid-19 is likely to lead to significant reductions in revenue compared to the original expectations of the business for 2020. These may result from:

- Inability to offer certain services due to their face-to-face nature for the Occupational Health business;
- Lower requirements for occupational health work from customers who themselves have reduced activity levels, and similarly reduced staffing permanently or temporarily;
- Resistance from customers to accepting telephonic or online alternatives to face-to-face occupational health service delivery;
- Inability to sell new services to customers due to the removal of face-to-face sales channels for the employee benefit business;
- Lower requirements for health and wellbeing services from customers who themselves have reduced activity levels and may have reduced staffing permanently or temporarily; and
- Lower requirements from customers for occupational health, health and wellbeing services generally, owing to an expedited automation programme in response to Covid-19.
- Reduced appetite in customers for signing new contracts, moving from current suppliers, or committing to additional work at a time when there is so much uncertainty

Though there are opportunities for the Group to deliver new services which directly support customers through the pandemic, the uncertain environment creates barriers for customers to procure additional services.

Though government support schemes may provide some isolation against revenue loss, these will not completely protect the business because various fixed costs will remain. In addition, there is currently uncertainty as to the length of any lockdown measures, the speed with which 'normality' will return after lockdown measures are lifted, and the extent to which government intervention may continue or be extended.

Liquidity Impacts

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

For many businesses, the actions taken by the Government to prevent the spread of Covid-19 have severely restricted business activity. It has also reduced consumer spending. This creates a risk of reduced cash flows across the economy.

In particular, if BHSF customers are suffering cash flow constraints they may look to pass them on to BHSF by stopping or delaying premium or invoice payments. In turn, this could create cash flow issues for the Group.

However, as the balance sheet (S.02.01) shows, the Group has substantial cash reserves (£4,937k). In addition, though investment markets have suffered volatility they have remained open, and all of the Group's investments are actively traded liquid assets which could be called upon in the case of cash flow difficulties.

Pension Scheme Impacts

The defined benefit pension scheme (described in more detail in note 15) also poses a risk to the Group as a result of market movements. The scheme includes investments whose values will have decreased significantly in early 2020, while the liabilities of the scheme will also be affected by government and corporate debt interest rates. These have also been extremely volatile in the early part of 2020.

Detailed calculations of the exact scheme position require actuarial intervention and time, which in the current volatile environment means calculations are out of date as soon as they are performed. Regardless, there is a risk that the pension scheme deficit could grow significantly in 2020 as a result of market conditions.

Note 15 includes sensitivity analysis on the scheme indicating the impact that relatively modest changes to assumptions can have on scheme assets. As at 31 March 2020, the pension scheme deficit was estimated to have increased to £2,252k – an increase of £676k. Though it is hoped that by the end of 2020 market conditions will be significantly improved, there is a risk that the growth in scheme deficit could create a loss in the Group's 2020 accounts an order of magnitude higher than the movement to date or the sensitivities in note 15 suggest.

An increased scheme deficit reduces the net assets of the Group and also increases strain on cash flow as further payments are required to close the scheme deficit.

Solvency Impacts

Based on scenario analysis carried out, working under relatively prudent assumptions, it is expected that by the end of 2020 BHSF Limited's solvency ratio would remain level at 193% while the Group ratio could fall to around 121%. Both of these are in excess of 100% of the Solvency Capital Requirement and therefore it is considered unlikely that a breach will occur and therefore it is a remote possibility that the Minimum Capital Requirement would be breached.

Nevertheless, everyone at BHSF is working hard to deliver better results than this, working hard to support other businesses and their staff through the current situation.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

APPENDIX A – ACCOUNTING POLICIES

The below notes are the main accounting policies which underpin the valuations of assets and liabilities on the BHSF Group and BHSF Limited balance sheets.

For further detail, readers can obtain copies of the BHSF Group financial statements from www.bhsf.co.uk or Companies House.

A. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, by equal annual instalments, to allocate the depreciable amount of the assets to their residual values over their expected useful lives.

The rates applicable during the year were:

Computer software	20-50%
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B. Tangible fixed assets

Tangible fixed assets are stated at depreciated historical cost.

Depreciation is calculated to write down the cost of tangible fixed assets by equal annual instalments over their expected useful lives.

The rates generally applicable during the year were:

Furniture and equipment	10-15%
Computer equipment	20%
Laptops	33%
Medical equipment	15%

C. Land and buildings

Land and buildings other than those occupied by the Group are treated as investment properties and are valued at open market value as determined by independent professional advisors every three years. In the intervening years these valuations are updated by the Directors with the assistance of independent professional advice as necessary. The last professional valuation of all such group properties was carried out at 31 December 2017 by Fisher German LLP (Chartered Surveyors).

Land and buildings occupied by the Group for its own purposes are included at market value as determined by independent professional advisors every three years. In the intervening years these valuations are updated by the Directors with the assistance of independent professional advice as necessary. The last professional valuation of the Group headquarters, Gamgee House, was carried out at 31 December 2017 by Sellers (Chartered Surveyors).

Depreciation is provided on freehold buildings used by the Group for its own purposes so as to write-off the valuations less their estimated residual value over their estimated lives.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

However, given the Group's policy of formally revaluing the property every three years, any charges for depreciation would be immaterial in relation to the financial statements. The Directors review the carrying value of the property for impairment on an annual basis.

D. Acquisitions

The financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Group Statement of Comprehensive Income from the date on which control is obtained.

E. Investments

Investment balances represent the value of BHSF Limited's investment portfolio and includes equities, corporate bonds, government bonds and investments in collective investment funds. Investments are recognised when BHSF Limited becomes contractual owner of the instrument and are recognised initially at their cost to BHSF Limited.

Whilst held, BHSF Limited values equity investments and investments in units of collective investment funds at fair value through profit or loss, where fair value is taken to be the bid price of the instrument at the statement of financial position date. BHSF Limited makes use of the accounting policy choice available under section 11.14(b) of FRS 102 to also designate corporate and government bond instruments as fair value through profit or loss.

Investments are de-recognised when BHSF Limited ceases to be the contractual owner of the instrument or, where applicable, when the instrument matures and contractual rights expire.

Investments in subsidiary undertakings are included at cost, less provision for permanent diminution in value.

F. Other financial instruments

The Group holds cash and debtor assets and long and short-term creditor liabilities which are classed as financial assets and liabilities. Cash balances are recorded at the statement of financial position date at their face value. Debtors and creditors are measured at amortised cost using the effective interest rate where durations are longer than one year. Where duration is shorter than one year, which is the case for all debtors and all creditors, financial assets and liabilities are measured at their cash settlement value.

G. Stock

Immaterial balances of stock (comprising medical consumables and medicines) are valued at the lower of their cost and their net realisable value.

H. Pension schemes

The difference between the fair value of the assets held in the Group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Group's statement of financial position as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

asset is restricted to the extent that the Group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

BHSF LIMITED SOLO REGULATORY TEMPLATES

S.02.01.02 Balance Sheet

	Solvency II value £'000
Assets	
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	268
Pension benefit surplus	
Property, plant & equipment held for own use	1,424
Investments (other than assets held for index-linked and unit-linked contracts)	18,865
<i>Property (other than for own use)</i>	590
<i>Holdings in related undertakings, including participations</i>	
<i>Equities</i>	6,951
<i>Equities - listed</i>	6,934
<i>Equities - unlisted</i>	17
<i>Bonds</i>	7,648
<i>Government Bonds</i>	3,411
<i>Corporate Bonds</i>	4,237
<i>Structured notes</i>	
<i>Collateralised securities</i>	
<i>Collective Investments Undertakings</i>	3,676
<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:	324
<i>Non-life and health similar to non-life</i>	324
<i>Non-life excluding health</i>	
<i>Health similar to non-life</i>	324
<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	2,161
Reinsurance receivables	
Receivables (trade, not insurance)	5,209
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	4,145
Any other assets, not elsewhere shown	
Total assets	32,396

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

	Solvency II Value £'000
Liabilities	
Technical provisions - non-life	2,850
<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)	2,850
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	2,346
<i>Risk margin</i>	504
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	1,576
Deposits from reinsurers	
Deferred tax liabilities	182
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	
Reinsurance payables	
Payables (trade, not insurance)	2,029
Subordinated liabilities	
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	
Any other liabilities, not elsewhere shown	
Total liabilities	6,637
Excess of assets over liabilities	25,759

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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

<i>Gross - Direct Business</i>	41,785	41,785
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	505	505
<i>Net</i>	41,280	41,280

Premiums earned

<i>Gross - Direct Business</i>	41,886	41,886
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	505	505
<i>Net</i>	41,381	41,381

Claims incurred

<i>Gross - Direct Business</i>	29,528	29,528
<i>Gross - Proportional reinsurance accepted</i>		
<i>Gross - Non-proportional reinsurance accepted</i>		
<i>Reinsurers' share</i>	533	533
<i>Net</i>	28,995	28,995

Changes in other technical provisions

<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>		

Expenses incurred

Other expenses

Total expenses

12,297	12,297
	12,297

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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
Premiums written							
<i>Gross - Direct Business</i>	41,785						41,785
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	505						505
<i>Net</i>	41,280						41,280
Premiums earned							
<i>Gross - Direct Business</i>	41,886						41,886
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	505						505
<i>Net</i>	41,381						41,381
Claims incurred							
<i>Gross - Direct Business</i>	29,528						29,528
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	533						533
<i>Net</i>	28,995						28,995
Changes in other technical provisions							
<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>							
Expenses incurred	12,297						12,297
Other expenses							
Total expenses							12,297

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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

	258	258
	258	258

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

	2,088	2,088
	324	324
	1,764	1,764

Total best estimate - gross

Total best estimate - net

	2,346	2,346
	2,022	2,022

Risk margin

	504	504
--	-----	-----

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

	2,850	2,850
	324	324
	2,526	2,526

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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	£'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							46					0	46	
N-6	20,900	1,167	7	1	0	1	0					0	22,076	
N-5	21,509	1,281	59	1	0	0						0	22,850	
N-4	22,456	1,236	13	1	0							0	23,706	
N-3	22,411	1,322	19	2								2	23,754	
N-2	24,058	1,785	12									12	25,855	
N-1	26,502	1,603										1,603	28,105	
N	27,839											27,839	27,839	
Total												29,456	174,231	

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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

25,759	25,673			86
25,673	25,673			
25,759	25,673			86
25,673	25,673			

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

13,349
3,337
193%
769%

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

Reconciliation reserve

25,759
86
25,673

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 2019

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

	Gross solvency capital requirement	USP	Simplifications
	£'000	£'000	£'000
Market risk	7,785		
Counterparty default risk	1,498		
Life underwriting risk			
Health underwriting risk	6,785		
Non-life underwriting risk			
Diversification	(3,976)		
Intangible asset risk			
Basic Solvency Capital Requirement	12,092		
Calculation of Solvency Capital Requirement			
Operational risk	1,257		
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			
Solvency Capital Requirement excluding capital add-on	13,349		
Capital add-ons already set			
Solvency capital requirement	13,349		
Other information on SCR			
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 2019

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

	£'000	£'000	£'000
Linear formula component for non-life insurance and reinsurance obligations			
MCR _{NL} Result	2,045		
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance		2,023	41,486
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 2019

Linear formula component for life insurance and reinsurance obligations

MCR_L Result

--

£'000

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

2,045
13,349
6,007
3,337
3,337
2,153

Minimum Capital Requirement

3,337

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

BHSF GROUP LIMITED CONSOLIDATED REGULATORY TEMPLATES

S.02.01.02 Balance Sheet

	Solvency II value
	£'000
Assets	
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	311
Pension benefit surplus	
Property, plant & equipment held for own use	1,786
Investments (other than assets held for index-linked and unit-linked contracts)	19,589
<i>Property (other than for own use)</i>	590
<i>Holdings in related undertakings, including participations</i>	724
<i>Equities</i>	6,951
<i>Equities - listed</i>	6,934
<i>Equities - unlisted</i>	17
<i>Bonds</i>	7,648
<i>Government Bonds</i>	3,411
<i>Corporate Bonds</i>	4,237
<i>Structured notes</i>	
<i>Collateralised securities</i>	
<i>Collective Investments Undertakings</i>	3,676
<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:	324
<i>Non-life and health similar to non-life</i>	324
<i>Non-life excluding health</i>	
<i>Health similar to non-life</i>	324
<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	2,161
Reinsurance receivables	
Receivables (trade, not insurance)	3,772
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	4,937
Any other assets, not elsewhere shown	20
Total assets	32,900

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

	Solvency II value £'000
Liabilities	
Technical provisions - non-life	2,850
<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)	2,850
<i>TP calculated as a whole</i>	
<i>Best Estimate</i>	2,346
<i>Risk margin</i>	504
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	54
Pension benefit obligations	1,576
Deposits from reinsurers	
Deferred tax liabilities	225
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	
Reinsurance payables	
Payables (trade, not insurance)	3,695
Subordinated liabilities	
<i>Subordinated liabilities not in BOF</i>	
<i>Subordinated liabilities in BOF</i>	
Any other liabilities, not elsewhere shown	
Total liabilities	8,400
Excess of assets over liabilities	24,500

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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

41,785	41,785
--------	--------

Gross - Proportional reinsurance accepted

--	--

Gross - Non-proportional reinsurance accepted

--	--

Reinsurers' share

505	505
-----	-----

Net

41,280	41,280
--------	--------

Premiums earned

Gross - Direct Business

41,886	41,886
--------	--------

Gross - Proportional reinsurance accepted

--	--

Gross - Non-proportional reinsurance accepted

--	--

Reinsurers' share

505	505
-----	-----

Net

41,381	41,381
--------	--------

Claims incurred

Gross - Direct Business

29,528	29,528
--------	--------

Gross - Proportional reinsurance accepted

--	--

Gross - Non-proportional reinsurance accepted

--	--

Reinsurers' share

533	533
-----	-----

Net

28,995	28,995
--------	--------

Changes in other technical provisions

Gross - Direct Business

--	--

Gross - Proportional reinsurance accepted

--	--

Gross - Non-proportional reinsurance accepted

--	--

Reinsurers' share

--	--

Net

--	--

Expenses incurred

12,368	12,368
--------	--------

Other expenses

--	--

Total expenses

	12,368
--	--------

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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
Premiums written							
<i>Gross - Direct Business</i>	41,785						41,785
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	505						505
<i>Net</i>	41,280						41,280
Premiums earned							
<i>Gross - Direct Business</i>	41,886						41,886
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	505						505
<i>Net</i>	41,381						41,381
Claims incurred							
<i>Gross - Direct Business</i>	29,528						29,528
<i>Gross - Proportional reinsurance accepted</i>							
<i>Gross - Non-proportional reinsurance accepted</i>							
<i>Reinsurers' share</i>	533						533
<i>Net</i>	28,995						28,995
Changes in other technical provisions							
<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>							
Expenses incurred	12,368						12,368
Other expenses							
Total expenses							12,368

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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

24,500	24,414			86
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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 2019

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)

24,500	24,414			86
24,414	24,414			
24,500	24,414			86
24,414	24,414			

Minimum consolidated Group SCR

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)

Group SCR

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

3,337				
732%				
24,500	24,414			86
14,055				
174%				

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

24,500

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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

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

86
24,414

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 2019

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	7,817		
Counterparty default risk	2,499		
Life underwriting risk			
Health underwriting risk	6,785		
Non-life underwriting risk			
Diversification	(4,525)		
Intangible asset risk			
Basic Solvency Capital Requirement	12,576		
Calculation of Solvency Capital Requirement			
Adjustment due to RFF/MAP nSCR aggregation	1,257		
Operational risk			
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			
Solvency Capital Requirement excluding capital add-on	13,833		
Capital add-ons already set			
Solvency capital requirement for undertakings under consolidated method	13,833		
Other information on SCR			
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	3,337		

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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

222

Overall SCR

SCR for undertakings included via D&A

Solvency capital requirement

14,055

BHSF GROUP LIMITED**SOLVENCY AND FINANCIAL CONDITION REPORT****FOR THE YEAR ENDING 31 DECEMBER 2019****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	213800ATVVLFNW9OT12	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	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35

BHSF GROUP LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDING 31 DECEMBER 2019

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: 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: Adjusted equity method
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: Adjusted equity method