

# **DAS Legal Expenses Insurance Company Limited**

Solvency and Financial Condition Report  
Year ended 31 December 2021



**FIRST FOR JUSTICE**

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## Summary

Solvency II (“SII”) is an EU legislative programme that was effective from 1 January 2016, and is currently still applicable to DAS Legal Expenses Insurance Company Limited (“DAS LEI”, “the Company”). Following Brexit, the UK Government are now able to set its own regulations and they have given a clear signal of their intention to tailor the regulatory framework for the UK insurance sector in a move that is likely to see some significant departures from the EU Solvency II regulations.

The main objective of SII was to modernise the existing insurance regulatory framework, with the objective of providing an enhanced and more consistent level of protection for policyholders across Europe. SII introduced features to improve a firm’s understanding and management of its risks, which should result in improved resilience to shocks. The objectives of SII are achieved through regulatory supervision, and includes public disclosure requirements. The public disclosure requirements are in the form of the Solvency and Financial Condition Report (“SFCR”).

As with each year since 2018 year end, DAS LEI meets the Prudential Regulation Authority’s criteria for being a small firm for external audit purposes and thus this SFCR does not need to be audited. This document includes comparisons and reconciliations to DAS LEI’s statutory financial statements, which are audited as required by Company Law.

This SFCR is based on the results for the year ended 31 December 2021 and is summarised below. Other than the changes noted below, there were no material changes in DAS LEI’s business and performance, system of governance, risk profile, valuation for solvency purposes and capital management during 2021.

In June 2016, the UK voted to relinquish its membership of the European Union (“EU”). DAS LEI used to write business within the European Economic Area (“EEA”) on a freedom of service basis in Norway. DAS LEI took the decision to cease writing new business in Norway in 2018 and received confirmation from Finanstilsynet, the financial supervisory authority in Norway, that DAS LEI would be able to continue to settle any claims arising from historical policies following Brexit.

DAS LEI used to write business from a branch in the Republic of Ireland. The business of the branch was disposed of on the 1 December 2019 to ARAG Allgemeine Versicherungs AG (“ARAG”), with the exception of the policyholder liabilities. These policyholder liabilities were subject to a reinsurance agreement with ARAG until their transfer pursuant to Part VII of the Financial Services and Markets Act 2000 which was completed successfully on 31 July 2020.

### Section A – Business and Performance

DAS LEI is the market leader for Legal Expenses Insurance (“LEI”) in the UK, and part of a large global insurance group, Munich Re. DAS LEI is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the Financial Conduct Authority (“FCA”) and the PRA.

The total comprehensive loss on a statutory basis for the year was £4,271k (2020: profit of £750k). The 2021 results were impacted adversely due to the investment performance, net of tax there were unrealised losses of £2,284k, compared to unrealised gains of £997k in 2020. The majority of these losses are due to the fall in the valuation of the UK Government bonds, which comprise the majority of DAS LEI’s invested assets. DAS LEI monitors Investment performance on an on-going basis to ensure that it is in line with its risk appetite as agreed by the Board of DAS LEI. The statutory loss after tax for the financial year of £1,987k (2020: £606k loss after tax) was impacted by ATE Large losses, a sub-portfolio which is in run-off. The prior year loss after tax was impacted adversely by COVID but also included gains relating to Court-issued Confiscation and Compensation Orders (£2,731k after tax).

Despite the above, DAS LEI’s Solvency II (“SII”) ratio remained robust at 162% at 31 December 2021 (“YE21”), which demonstrates the strength of the Company and the value and protection of its reinsurance strategy. The Company annually renews the terms of its reinsurance quota share with a fellow Munich Re subsidiary, ERGO Versicherung AG (“ERGO”).

## **Section B – System of Governance**

The Board of DAS LEI is ultimately responsible for compliance with the SII regulations and PRA rules through the use of a maturing Internal Control System (“ICS”) framework, and is responsible for the running of the business. There were some changes to the Board members and Senior Management Function (“SMF”) holders as noted in section B.1.

DAS LEI is a subsidiary of DAS UK Holdings Limited (“DAS UK Holdings”) and is managed on a unified basis with that company and its other UK subsidiaries, which together form DAS UK Group (“DAS UK”).

DAS UK manages its business risks and uncertainties using an Enterprise Risk Management Framework (“ERMF”), which includes the following key components:

- Risk Culture;
- Risk Governance (based upon “three lines of defence” principles);
- Risk Strategy;
- Risk Appetites;
- Policy Framework; and
- Risk Cycle (Risk Identification, Risk Assessment and Measurement, Risk Steering, Risk Monitoring and Reporting).

The System of Governance includes the Own Risk and Solvency Assessment (“ORSA”) process, which is a SII requirement and also an important management tool in the strategic decision-making process with the forward-looking assessment of own risks. This framework is used to ensure that DAS LEI has financial strength and is adequately capitalised to support business growth and to meet the requirements of the shareholder, regulators, rating agencies and its obligations to policyholders.

## **Section C – Risk profile**

The principal risks and uncertainties in the business have been reviewed and documented as part of the ORSA process. It is possible to identify from the ORSA the principal risks and uncertainties that are particularly relevant to DAS LEI. These are summarised below:

- Underwriting risk (for further information see section C.1);
- Market risk (for further information see section C.2);
- Credit risk (for further information see section C.3);
- Liquidity risk (for further information see section C.4);
- Operational risk (for further information see section C.5); and
- Regulatory risk, Strategic concentration risk and Reputational risk (for further information see section C.6).

## **Section D – Valuation for Solvency Purposes**

DAS LEI’s excess of assets over liabilities on a SII basis is £29,869k, whilst on the local statutory reporting basis this excess is £26,240k as shown in DAS LEI’s statutory financial statements. The difference is due to the differing bases of valuation of assets and liabilities under statutory and SII reporting, particularly in respect of the recognition of future cash flows arising from (re)insurance contracts in the technical provisions for SII reporting. A reconciliation between the equity shown in the financial statements and the own funds for SII purposes is shown in section E.1. Section D sets out the bases, methods and main assumptions used in the valuation of the assets, technical provisions and other liabilities.

## **Section E – Capital Management**

The SII coverage ratio, defined as the ratio of Eligible Own Funds (“EOF”) to Solvency Capital Requirement (“SCR”), is a key measure of financial strength under SII. Despite the statutory loss after tax for the financial year, the Company’s YE21 solvency position remained robust at 162% (2020: 189%), demonstrating the strength of DAS LEI and the value and protection of its reinsurance strategy with fellow Munich Re subsidiary ERGO. DAS LEI annually renews the terms of this reinsurance quota share agreement with ERGO.

Section E sets out the capital DAS LEI holds (“Own funds”) and the excess of capital above the amount that it is required to hold by the SII regulations and the PRA rules.

### **Appendix 1 – Quantitative Reporting Templates**

This Appendix sets out the Quantitative Reporting Templates (“QRTs”) as required by the SII regulations.

### **Appendix 2 – Glossary of abbreviations and terms.**

This Appendix provides a glossary of abbreviations and terms which may aid the reader.

*Note: Monetary amounts in this SFCR are usually shown rounded to the nearest thousand. Calculations are performed on the underlying amounts rather than the rounded amounts, so the rounded results might not always reconcile precisely.*

## Statement of Directors' Responsibilities

### Directors' Statement of Responsibility in respect of the SFCR for the year ended 31 December 2021

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA rules and the Solvency II regulations.

We are satisfied that:

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

The SFCR was approved at a meeting of the Board of Directors on the 31 March 2022 and signed on its behalf by:

Director

A Coram



## A. Business and Performance

### A.1. Business

DAS LEI is registered in England and Wales under company number 000103274 as a private company limited by shares. DAS LEI's registered office is located at DAS House, Quay Side, Temple Back, Bristol, BS1 6NH.

DAS LEI's principal activity is the transaction of Legal Expenses Insurance ("LEI") business.

DAS LEI operates predominantly in the UK market. DAS LEI used to write business within the European Economic Area ("EEA") on a freedom of service basis in Norway. However, following the UK's vote to relinquish its membership of the EU, DAS LEI took the decision to cease writing new business in Norway in 2018. Confirmation was received from Finanstilsynet, the financial supervisory authority in Norway, that DAS LEI will be able to continue to settle any claims arising from historical policies in future years following Brexit.

DAS LEI used to have a branch in the Republic of Ireland; but following the sale and subsequent transfer of the insurance business pursuant to Part VII of the Financial Services and Markets Act 2000 on 31 July 2020, this branch has now been fully divested.

DAS LEI operates two fundamental classes of business that remain the focus of its strategy for the duration of its planning horizon:

- Before the Event ("BTE") policies provide insurance in the traditional sense, where cover is purchased to protect the policyholder in respect of the occurrence of potential future events. This business falls under the "Legal expenses insurance", "Assistance" and "Miscellaneous financial loss" SII lines of business; and
- After the Event ("ATE") insurance is provided after a substantive incident has occurred and therefore the risk insured is the risk of losing the litigation. Cover is provided for defendants' costs, their own disbursements and premium indemnity. Solicitors have an alignment of interest as their own costs, which are not indemnified under the terms of the policy, are at risk. This business falls under the following SII lines of business: "Legal expenses insurance" and "Assistance".

DAS LEI is authorised by the PRA and regulated by the FCA and the PRA (Firm Reference Number: 202106).

The PRA's contact details are: Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA.  
The FCA's contact details are: Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

DAS LEI's external auditor is Ernst & Young LLP ("E&Y"), and their contact details are: The Paragon, Counterslip, Bristol, BS1 6BX.

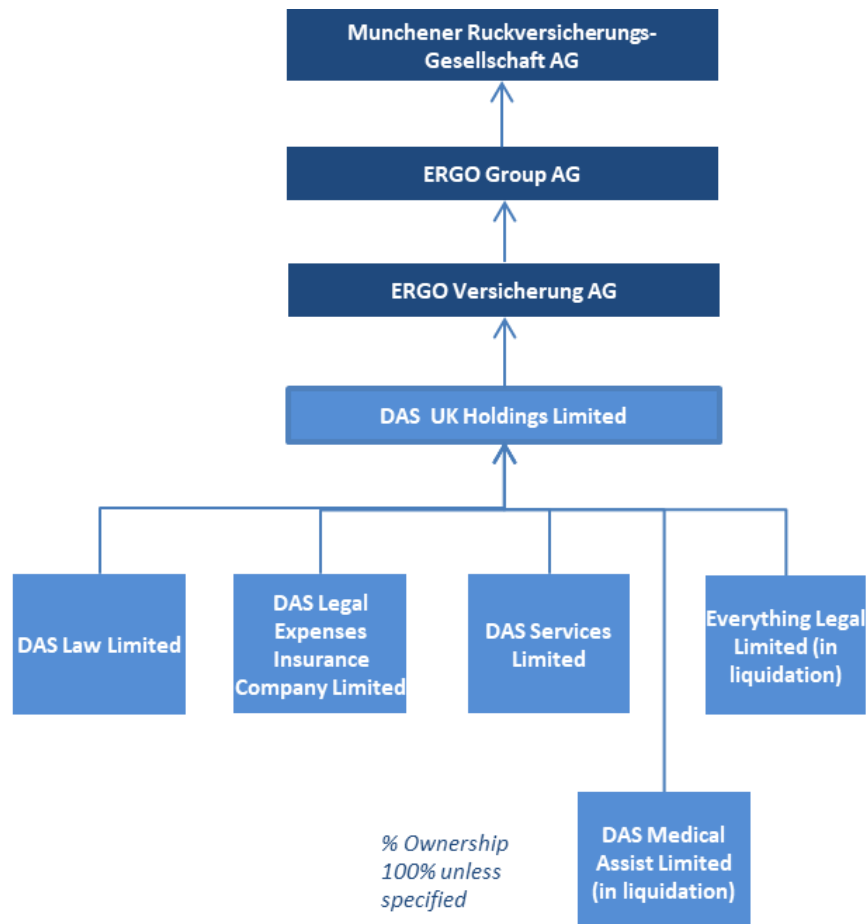
DAS LEI has no related undertakings, investments in joint controlled entities or associates.

There has been no significant business or other events that have occurred over the reporting period and had a material impact on DAS LEI.

## DAS UK Group

DAS LEI is a wholly-owned subsidiary, and the principal trading subsidiary, of DAS UK Holdings. DAS UK Holdings is the holding company of the DAS UK group of companies. DAS UK Holdings is responsible for overseeing the operations of its subsidiaries including setting the overall strategy and risk appetite of the UK group, delegating appropriate authority to the subsidiaries and ensuring the long-term success of DAS UK as a whole as well as the individual subsidiaries.

The diagram below shows the structure of the DAS UK group and where it sits in the wider ERGO and Munich Re groups:



All DAS UK companies are incorporated in the United Kingdom. During the year DAS Medical Assist Limited and Everything Legal Limited commenced the liquidation process.

## ERGO and Munich Re Groups

DAS UK Holdings is a wholly-owned subsidiary of ERGO.

ERGO is a wholly-owned subsidiary of ERGO Group AG (“ERGO Group”).

ERGO Group is one of the major insurance groups in Germany and Europe. It is represented in more than 30 countries worldwide and concentrates on Europe, Asia, and the US.

ERGO Group is a wholly-owned subsidiary of Münchener Rückversicherungs-Gesellschaft AG (“Munich Re”).

Munich Re is supervised by Bundesanstalt für Finanzdienstleistungsaufsicht (“BAFIN”), Graurheindorfer Straße 108, 53117 Bonn, Germany.



## A.2. Underwriting Performance

“Underwriting result” is defined for the purpose of this document as DAS LEI’s profit or loss for the year excluding investment results, foreign exchange gains/losses, other non-technical expenses and the impact of reinsurance.

The underwriting result (gross of reinsurance) is shown below by SII line of business:

All amounts in £'000s	2021	2020
Legal expenses insurance	(2)	2,786
Assistance	329	(496)
Miscellaneous financial loss	(2,442)	(2,240)
<b>Total Gross underwriting (loss)/profit</b>	<b>(2,115)</b>	<b>50</b>

**In assessing DAS LEI’s performance for the year, the investment performance set out in section A.3 and the performance of other activities (including the reinsurance result) set out in section A.4 should also be considered, as they are not included in the above analysis.**

Legal expense insurance and Assistance improved compared to the prior year mainly as a result of the detrimental impact of COVID recognised in 2020; in 2021 there was no adverse impact of COVID. Miscellaneous financial loss was in line with 2020 performance. The losses were largely offset by recoveries from the ERGO quota share (see section A.4). This reinsurance agreement mitigates future losses, creates a more stable profit and results in a stronger solvency position.

DAS LEI took the decision to cease writing new business in Norway in 2018 and received confirmation from Finanstilsynet, the financial supervisory authority in Norway, that it would be able to continue to settle any claims arising from historical policies following Brexit. Therefore, there are no other material geographical areas other than the United Kingdom.

See Appendix 1 for the following Quantitative Reporting Templates (“QRTs”) that may be required to be disclosed in relation to the underwriting performance:

- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country

## A.3. Investment Performance

The table below analyses the investment return for the year:

All amounts in £'000s	2021	2020
Income from Government Bonds	314	525
Income from Corporate Bonds	357	311
Income from Structured notes	5	10
Income from cash balances	-	9
Gains on the realisation of Government Bonds	63	-
(Losses)/Gains on the realisation of Corporate Bonds	(26)	52
Losses on the realisation of Collective Investment Undertakings	-	(6)
Investment management expenses	(178)	(173)
<b>Total Investment return</b>	<b>535</b>	<b>729</b>

DAS LEI's investment portfolio is managed by Munich Re Group Investment Management ("Munich Re GIM").

Investment return comprises all investment income, realised investment gains and losses, net of investment expenses, charges and interest other than unrealised gains and losses on available-for-sale assets (see "Gains and losses recognised in Equity" below). Interest earned whilst holding available-for-sale investments is reported as interest income using the effective interest rate method.

The investment income for 2021 was lower than 2020 mainly due to government gilts which were purchased at a premium in the recent years and this had resulted in more amortisation being reflected in Investment income. This offsets the interest received from the coupon and is required to reflect the effective interest rate given the premium paid. The investment return for 2021 is considered to be consistent with market performance given the turnover of investments in DAS LEI (see below).

### Gains and losses recognised in Equity

In addition to the items above, there were losses on re-measurement of available-for-sale financial assets, net of tax: £2,284k (2020: gains of £997k). These mainly relate to unrealised gains and losses on bonds and government gilts, and the difference compared to prior year mainly reflects market movements. DAS LEI monitors Investment performance on an on-going basis to ensure that it is in line with its risk appetite as agreed by the Board of DAS LEI.

### Investments in securitisations

The undertaking still has no investments in securitisation during the financial year in question, or the prior financial year.

## A.4. Performance of other activities

The table below sets out the “Total comprehensive (loss)/profit for the year” as stated in DAS LEI’s financial statements, and it also includes the underwriting and investment results set out in the previous sections.

Item	2021 £'000	2020 £'000	Comments
Gross underwriting performance	(2,115)	50	See A.2 section.
Investment performance	535	729	See A.3 section.
(Losses)/Gains on re-measurement of available-for-sale financial assets	(2,284)	997	See A.3 section.
<b>Performance of other activities</b>			
Other income per Non-technical account	516	4,718	This includes a recovery of £516k (2020: £4,586k) where DAS LEI was involved in a private criminal prosecution against a former CEO and two other former staff members.
Other expenses per Non-technical account	(282)	(4)	This comprises foreign currency losses and is not material.
Gain/(Loss) on sale of discontinued operations, net of tax	65	(313)	This is the profit/ (loss), net of tax, on the sale of the Irish Branch which was sold in 2019.
Tax on loss on ordinary activities per Non-technical account	466	229	This is the tax on the items disclosed in the Profit and Loss Account in the financial statements. The movement in this figure largely relates to the change in the loss before tax in the year.
Foreign currency translation differences on foreign operations, net of tax	-	359	Following the sale of the Irish branch there are no Foreign currency translation.
Items included in the Technical account, other than gross underwriting result	(1,172)	(6,016)	This balance includes the reinsurance result which was a credit of £4,904k (2020: loss of £861k) and other non-technical expenses/income. DAS LEI’s reinsurance policy helps mitigate risk to policyholders and gross underwriting risk, improving DAS LEI’s SII position.
<b>Total comprehensive (loss)/profit for the year</b>	<b>(4,271)</b>	<b>750</b>	

### Leases

The only lease that DAS LEI are party to has been brought on to the balance sheet following the implementation of IFRS 16 “Leases”, however it is not material.

## A.5. Any other information

There is no other material information to disclose.

## B. System of Governance

DAS LEI’s system of governance is deemed appropriate for the nature, scale and complexity of the risks inherent in its business. The system of governance is set out below.

There have been no material changes in the system of governance other than those noted below, and it operated satisfactorily, during the reporting period.

### B.1. General information on the system of governance

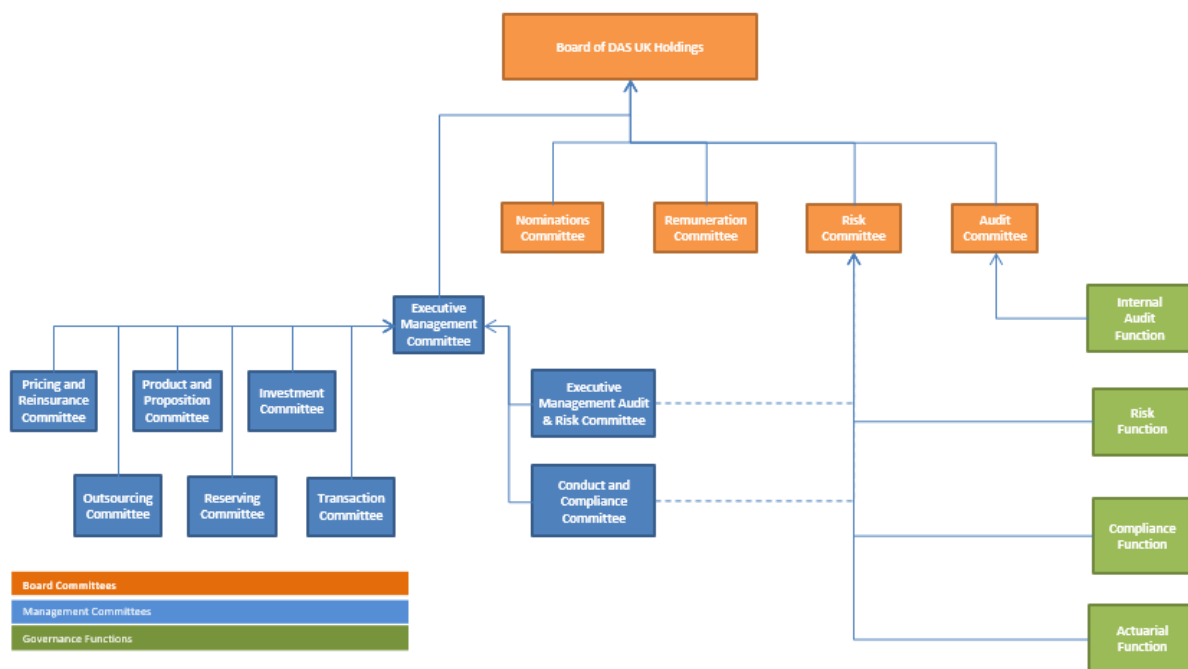
DAS LEI is managed on a unified basis with other companies in DAS UK, including DAS UK Holdings, DAS LEI’s immediate parent company.

DAS UK has developed a Corporate Governance Structure that facilitates a clearly defined decision-making process, business execution system and supervisory system. This structure allows decision-making authority to be delegated throughout DAS UK to ensure that there is efficiency of decision-making while also maintaining effective oversight.

The Corporate Governance Structure consists of the Board of Directors with a clearly defined mandate and duties. Below the DAS UK Holdings Board of Directors the structure consists of:

- Board Committees that report up into, and make recommendations to, the Board of DAS UK Holdings;
- An Executive Management Committee (“EMC”) that comprises all Senior Managers within DAS UK and reports up into the Board;
- Management Committees that are responsible for first line risk management decisions for key areas within DAS UK. These report into the EMC, and in some cases the Risk Committee; and
- Functional areas that are responsible for the second and third line of defence activities within DAS UK and report into the Risk Committee or Audit Committee.

The Corporate Governance Structure is outlined in the DAS UK Governance Map below.



The duties outlined for the Board, Board Committees and Management Committees refer to DAS UK as a whole.

## **Roles, Responsibilities and Purpose**

### **Boards**

#### *DAS UK Holdings Board*

The Board of Directors of DAS UK Holdings is collectively responsible for the long-term success of that company and its subsidiaries. DAS UK Holdings' Board provides entrepreneurial leadership of that company within a framework of prudent and effective controls which enables risk to be assessed and managed. DAS UK Holdings' Board is responsible for setting that company's strategic aims, ensuring that the necessary financial and human resources are in place for that company to meet its objectives and review management performance. DAS UK Holdings' Board sets that company's values and standards, and ensures that its obligations to its shareholders and others are understood and met.

#### *DAS LEI Board*

The Board of Directors of DAS LEI is collectively responsible for the long-term success of the company. DAS LEI's Board provides entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. DAS LEI's Board is responsible for setting the company's strategic aims, ensuring that the necessary financial and human resources are in place for DAS LEI to meet its objectives, and reviewing management performance. The DAS LEI Board sets the company's values and standards, and ensures that its obligations to its shareholders and others are understood and met.

### **DAS UK Holdings Board Committees**

#### *Nomination Committee*

The Nomination Committee is, among other things, responsible for managing the process to advise and make recommendations to the Board on matters relating to the membership of the DAS UK Holdings and DAS LEI Boards, Board Committee membership and related executive appointments.

#### *Remuneration Committee*

The Remuneration Committee is responsible for the setting and oversight of the remuneration policy for DAS UK, including the appropriate framework and governing principles for sales incentives and other performance-based arrangements. The Committee is also responsible for considering Executive Team remuneration, including pension rights and any compensation payments, recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share option or other performance-related schemes.

#### *Audit Committee*

The purpose of the Audit Committee is to provide oversight and assessment of the integrity and accuracy of the financial reporting, along with the effectiveness of the internal controls of DAS UK. It is also responsible for the management, coordination and oversight of the internal and external audit functions. The Committee also has responsibility for the DAS UK group whistle-blowing policy.

#### *Risk Committee*

The Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of DAS UK and future risk strategy, including determination of an appropriate risk appetite and risk tolerance. It also has responsibility for reviewing and approving various formal reporting requirements and promoting a risk awareness culture within DAS UK.

## ***DAS UK Holdings Management Committees***

### *Executive Management Committee*

The purpose of the EMC is to manage the business of DAS UK within agreed financial limits set by the Board. Subject to these financial limits, it has primary authority for the day-to-day management of DAS UK's operations save for those matters which are reserved to the Board or its committees.

### *Transaction Committee*

The Transaction Committee's purpose is to review and approve all material agreements:

- Regarding the sale or renewal of legal expenses insurance or legal services;
- In respect of corporate transactions or property interests;
- Involving new business or product lines not currently undertaken by DAS UK; and
- In addition, it reviews and approves other agreements outside the usual course of business or involving a material or unusual risk profile.

Consideration is given to market need, competitors, risks, perceived benefits and appetite of DAS UK. In some instances, input is received on the financial implications of the transaction from the Pricing and Reinsurance Committee.

### *Pricing and Reinsurance Committee*

The Pricing and Reinsurance Committee is responsible for monitoring the performance and capital requirements of all individual lines of business across BTE, ATE, Insured Assistance and other business lines. Responsibilities include approval of outward reinsurance agreements; review of pricing and financial implications; and review pricing adequacy and recommend changes as necessary.

### *Product and Proposition Committee*

The Product and Proposition Committee's purpose is to oversee and control the product development process for new and existing products and services across DAS UK, including BTE, ATE, Insured Assistance, Legal Services, Special Risks and other business lines. It is also to ensure that the development of new products and services meet regulatory and company requirements, and considers business conduct and fair outcomes for customers at each stage in the process.

### *Reserving Committee*

The purpose of the Reserving Committee is to:

- Review DAS LEI's claims reserving policy;
- Review and challenge models, assumptions and data used in the most recent claims reserves assessment and the calculation of technical provisions for SII; and
- Make recommendations in respect of the models and assumptions to be used.



### *Executive Management Audit & Risk Committee*

The purpose of the Executive Management Audit & Risk Committee (“EMARC”) is the:

- Design and implementation of the Group’s Enterprise Risk Management Framework (“ERMF”) and provision of a 2nd line perspective on the embeddedness of the EMRF in the 1st line, including monitoring and escalation of risk appetite and any breaches;
- Provision to executive management of insight and analysis on the risk profile of the DAS UK Group and the activities being taken to measure the manage the risks across the Group;
- Implementation of DAS UK’s Information Security framework within the Operational Risk appetite set by the Board, including escalation and monitoring of information security incidents and compliance with regulatory obligations; and
- Implementation of DAS UK’s Business Continuity Management (“BCM”) and Disaster Recovery frameworks within the Operational Risk appetite set by the Board, including escalation and monitoring of BCM incidents and compliance with regulatory obligations;

Responsibilities of the EMARC include:

- Overseeing and monitoring the 1st line implementation of: i) day to day risk management, in accordance with agreed risk policies, risk appetite and controls; ii) the execution of the Group’s risk strategy, business performance monitoring, setting and implementation of policy; and iii) management of risks and internal controls;
- Defining and implementing risk metrics, including targets, tolerances and Risk Indicators, and approve all limit applications subject to Board approval;
- Overseeing and approving processes and procedures, including reporting procedures, which enable the first line of defence to identify, assess, manage and monitor the risks within each area and a process to escalate these where necessary;
- Escalate appetite, tolerances and limits breaches effectively and appropriately; and
- Reviewing and recommending approval of the ORSA to the Risk Committee at least annually.

### *Conduct and Compliance Committee*

The purpose of the Conduct and Compliance Committee is the:

- Implementation of DAS UK’s compliance framework within the Regulatory Risk appetite set by the Board, including escalation and monitoring of compliance breaches and compliance with regulatory obligations;
- Establishment and oversight of Conduct risk management practices, including identification, monitoring and management of Conduct risks within business models, distribution arrangements and Sales/Marketing activities; and
- Maintenance of a robust succession plan that recognises current and future business needs and requirements, and addresses the unexpected loss of key compliance individuals.

### *Outsourcing Committee*

The purpose of the Outsourcing Committee is the:

- Management and periodic review of outsourcing arrangements and delegated authorities across all business lines, including oversight of partner audits;
- Review of management information;
- Monitoring of outsourcer performance against key metrics;
- Monitoring of outsourcer compliance with regulatory requirements; and
- Oversight of outsourcing risk management arrangements, contractual agreements, and maintenance of an inventory of all material outsourcing arrangements.

### *Investment Committee*

The purpose of the Investment Committee is the oversight and periodic review of investment management arrangements and delegated authorities, including review of management information, monitoring of the Investment Manager's performance against key metrics (risk triggers), monitoring of compliance with regulatory requirements, and oversight of market risk management arrangements and contractual agreements.

### ***Roles and Responsibilities of Board Members and other Key Function Holders***

#### *1. Chair of the Board*

The Chair is responsible for the leadership of the Boards of DAS UK Holdings and DAS LEI, ensuring their effectiveness in all aspects of their role including regularity and frequency of meetings.

Responsibilities include:

- Setting the Board agenda taking into account the issues and concerns of all Board members and concentrating on strategic matters;
- Chairing board meetings, general meetings and meetings of the Nomination Committee at which the Chair is present;
- Managing the Board to allow enough time for discussion of complex or contentious issues and where appropriate arranging informal meetings beforehand to enable thorough preparation for the Board discussion; and
- Ensuring that Directors receive accurate, timely and clear information, including that on DAS UK's current performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of DAS UK.

#### *2. Non-Executive Directors*

Non-Executive Directors are required to bring innovation and experience to the Board whilst monitoring executive decisions. They should also be independent in judgement and have an enquiring mind. They are responsible for scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. Additionally, they are responsible for constructively challenging the Board and for the provision of assistance in developing DAS UK's strategy.

Specifically Non-Executive Directors must satisfy themselves on 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.

In addition Independent Non-Executive Directors are responsible for:

- Challenging decisions made by the Board, committees of the Board and Directors, ensuring compliance and good governance in line with regulatory and statutory obligations; and
- Reporting to the appropriate authorities issues where there are possible breaches of regulations or statutory obligations.

#### *3. Chief Executive Officer*

The Chief Executive Officer ("CEO") receives delegated authority from the Board to execute the DAS UK business strategy, in accordance with the direction and policies established by the Board. Key responsibilities include Board administration and support, programme, product and service delivery, financial and risk management, human resource management and community/public relations.

#### *4. Chief Finance Officer*

The Chief Finance Officer (“CFO”) has accountability for the management of the financial resources of DAS UK and reporting to ERGO Group in relation to its financial affairs. The CFO oversees the Finance and Actuarial departments at DAS UK. They are accountable for the strategic direction and quality of all financial matters, including financial planning and analysis, reporting and tax, accounting and reserving.

#### *5. Chief Customer Officer*

The role of the Chief Customer Officer oversees a number of critical operational areas and is responsible for all the End Customer Integration functions and capabilities. They provide a single vision and service delivery across all methods and areas of end Customer Contact within the DAS customer journey. They ensure that the service delivery is aligned to the Business and Customer Strategy.

Following the announcement that Tony Coram became Chief Executive Officer, his old role of Chief Customer Officer was disbanded at the start of 2022 and replaced as follows:

- a new Director of Claims role was introduced to oversee end to end claims operations, including the non-legal case aspects of the DAS customer journey,
- the reserved legal activities have been allocated to Brynley Case, an existing executive team member who has now taken on the role of Director of Legal Services and oversees our legal practice areas of DAS Law, and
- our Technical Claims function has moved under the remit of our Director of Client Services.

#### *6. Director of Client Services*

The Director of Client Services is responsible for:

- Developing and delivering the Insurance business strategy, which includes underwriting and pricing;
- Providing insight, advice and guidance on areas of development, trends and changes, identifying and supporting new business opportunities for DAS LEI; and
- Being accountable for the profit or loss of the Insurance business, driving growth whilst also managing margins and cost.

#### *7. Director of Technology, Data and Strategic Change*

The Director of Technology, Data and Strategic Change oversees a number of critical operational areas within DAS UK and is accountable for the operational infrastructure of DAS UK and has specific responsibility for the IT estate and architecture, data and information management, information security, BCM, project management and change management.

#### *8. Group Director of Human Resources and Legal Services (applicable up to 8 February 2021)*

The Group Director of Human Resources and Legal Services had ultimate accountability for all people-based activity from both an operational and strategic perspective. They were accountable for driving the people agenda across DAS UK, in line with the overall corporate strategy, and for setting and embedding the desired company culture and behaviours. In addition to Human Resources activities, they were accountable for Facilities, Legal Services, Internal Communications, and Corporate Social Responsibility.

From 9 February 2021, the above role was split into two, a Chief People Officer and a Group General Counsel and Head of Procurement & Outsourcing (see “Changes in the roles in the year” section below) and their responsibilities are noted below. The change was partially due to DAS LEI's continued focus on people and on building a modern, inclusive and engaging culture.

#### *8a. Chief People Officer*

The Chief People Officer has ultimate accountability for all people and property based activity from both an operational and strategic perspective. They are accountable for driving the people and property

agenda across DAS UK, in line with the overall corporate strategy, and for setting and embedding the desired company culture and behaviours.

#### *8b. Group General Counsel and Head of Procurement & Outsourcing*

The Group General Counsel and Head of Procurement & Outsourcing has accountability for in-house legal activity, oversight of our Company Secretariat function and overall responsibility for all outsourced and third party relationships, ensuring we have appropriate processes, policies and governance in place to safely and diligently manage these activities.

#### *9. Head of Internal Audit*

The Head of Internal Audit is responsible for the identification and testing of the controls and systems associated with DAS UK and for the provision of assurance to the Board regarding the management of all risks pertinent to DAS UK.

#### *10. Chief Risk and Compliance Officer*

The Chief Risk and Compliance Officer provides direction to DAS UK for all enterprise risk management, conduct risk, data protection, financial crime, compliance and regulatory issues.

The Chief Risk and Compliance Officer role acts as the Chief Risk Officer for DAS UK. The core responsibilities of this role are:

- Developing the DAS UK Holdings Risk Management Strategy to align with the ERGO Group Strategy;
- Acting as the independent second line strategic lead for the establishment of an ERMF in DAS UK;
- Ensuring that the risk management culture of DAS UK is designed and implemented to support a clear set of risk appetites as articulated by the DAS UK Holdings Board;
- Designing, implementing and monitoring the ERMF and ICS risk assessment framework across DAS UK. This includes the ORSA process and the provision of assurance to the DAS LEI Board;
- Being responsible for the effective design and implementation of a Whistleblowing regime for DAS UK;
- Acting as the Data Protection Officer for DAS UK and oversee the management of second line processes for information assurance, data protection, financial crime, and conduct and regulatory compliance;
- Being accountable for advice, support, review and challenge across DAS UK and DAS LEI of the business' management of all conduct risk (through first line conduct risk identification, measurement (including adherence to the Board's risk appetite), management, monitoring and reporting processes);
- Designing and maintaining (in conjunction with Company Secretary) Fit and Proper, and Senior Managers and Certification Regime ("SMCR") processes;
- Maintaining oversight of and ensuring effective implementation and embedding of SMCR policies, processes and procedures. The regulation aims to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence; and
- Oversight of the Solvency II Standard Formula process, including data input, calculation, documentation and reporting. The responsibilities are apportioned to the Chief Actuary's department for execution.

#### *11. Chief Actuary*

The Chief Actuary directs the Actuarial function, which is responsible for analysis and quantification of financial risks and liabilities. Key responsibility areas include reserving, capital modelling, and pricing support. The Chief Actuary is responsible for complying with SII regulations and the PRA Rulebook in relation to the Actuarial Function Holder, including oversight of the calculation of technical provisions, appropriateness of underwriting and pricing policies, and adequacy of reinsurance arrangements.

### *Changes in roles in the year*

From the 1 January 2021, a new Chief Risk & Compliance Officer, James Sutherland, was appointed following all necessary regulatory approvals. He is now responsible for the Risk Management Function and the Compliance Function and holds the Senior Management Functions *SMF4 Chief Risk Officer* and *SMF16 Compliance Oversight*. James Sutherland replaced Paul Eccleson who was responsible until 31 December 2020.

From the 9 February 2022, the Group General Counsel and Head of Procurement & Outsourcing, Brynley Case, was appointed as *SMF7 Group Entity Senior Manager*.

On 1 February 2021, Ilona Dreska was appointed as a non-executive director and she became a member of the Audit and Risk committees.

With effect from 31 July 2021, Dirk Schautes and James Henderson resigned as directors of DAS LEI and DAS UK Holdings. To fill the vacancies arising, on 1 August 2021 Christine Kaaz and Oliver Willmes were appointed as Non-executive directors, and Oliver Willmes became a member of the Nomination and Remuneration Committees.

In July 2021, Andrew Burke gave notice of his intention to resign as CEO of DAS UK. Subsequently, it was announced that Tony Coram, Chief Customer Officer, would take up the role of CEO from 2022. Regulatory approvals were obtained from 20 January 2022. With effect from 31 December 2021, Andrew Burke resigned as a director of the DAS UK entities, including DAS LEI. He ceased to perform the role as CEO of DAS LEI from 15 January 2022.

Also, subject to regulatory approval, David Swigciski, Director of Client Services, is to be appointed to the DAS UK Holdings and DAS LEI Boards in 2022, to fill the vacancy arising following Andrew Burke's departure.

## **Remuneration**

### ***Information on the remuneration policy and practices***

The Remuneration Committee has overall responsibility for the remuneration decisions for DAS UK Directors and Senior Managers, and monitors both fixed and variable remuneration for this group and the total overall spend on variable pay. The remuneration paid to Independent Non-Executive Directors ("INEDs") is also determined by the Remuneration Committee and is reviewed at least every three years. INEDs are not entitled to performance-related remuneration.

There were changes in the remuneration for the Executive Board members which meant they were no longer to be remunerated with variable pay. For the members of the EMC, effective 1 January 2021:

- Executive Board Members previously received a bonus based on financial measures, however this is now delivered as a fixed allowance.
- Grade F – these individuals receive an at-target award set at 20% of base pay (previously 40%) with 20% delivered as a fixed allowance in lieu of bonus, replacing the element of bonus which was based on financial measures.
- Grade E – these individual receive an at-target award set at 7.5% of base pay (previously 15%) with 7.5% delivered as a fixed allowance in lieu of bonus, replacing the element of bonus which was based on financial measures.
- Control function – these individuals on the EMC receive an at target award set at 10% of base pay.

Variable pay in the form of annual bonuses is also provided to specific Client Service based roles at DAS UK; and the same approach was delivered to these participants, with the financial element being delivered as an allowance in lieu of bonus. Also, a mixture of quarterly and annual incentives are payable in DAS Law Limited ("DAS Law").



Remuneration for all employees is managed according to an annual budgeted pay process. The pay award is also subject to negotiation annually with Unite, the recognised Union. Once agreed, all pay increases are effective from April and are they are distributed by reference to the employee's overall performance rating from the previous year. Pay levels are benchmarked annually using Willis Towers Watson. In addition, employee benefits are provided including market-aligned benefits.

#### ***Information on the individual and collective performance criteria***

For executive members of the Board the remuneration package is governed according to the ERGO remuneration guidelines and the Munich Re Compensation and Remuneration Policy which is based on SII requirements. From January 2021 all three incumbents moved to a fixed remuneration basis. The remuneration paid to INEDs is also determined by the Remuneration Committee and is reviewed at least every three years. INEDs are not entitled to performance related remuneration.

For members of the EMC performance is measured according to financial and personal goals which include annual, people and risk/compliance objectives. For EMC non-Board members, the at-target awards are payable based on the satisfactory achievement of all personal objectives; these would typically include any financial targets over which they had direct control over them, albeit in the control functions these would not be business financial targets.

There are no entitlements to share options or shares for any members of the administrative, management or supervisory body and other key function holders (other than a two-year requirement for the CEO to convert his mid-term award into Munich Re shares after three years).

In deciding the appropriate level of the awards themselves DAS UK considers both what employees have delivered and how they have delivered against their goals. DAS LEI's plans are governed by the Remuneration Committee which oversees the workings of the schemes and the specific pay levels of senior management and staff in key functions as part of a broader ERGO group-wide framework.

#### **Supplementary Pension Options and Early retirement scheme**

There are no supplementary pension provisions. All executive members of the administrative, management or supervisory body and other key function holders are covered under the standard defined contribution pension plan. There is no provision for non-executive members.

Also see allocation of key functions in accordance with the FCA Handbook and the PRA Rulebook in section B.2.

#### **Material Transactions during the reporting period**

Under the quota share arrangement with ERGO, DAS LEI cedes 90% of its insurance business, net of external reinsurance. This transaction was entered into on an "arm's-length" basis.

For information on Directors' remuneration see the Directors' remuneration note in DAS LEI's financial statements for 31 December 2021.



## B.2. Fit and proper requirements

### *Requirements*

DAS UK has a “Fitness and Propriety” policy in place which sets out the framework for assessments of the fitness and propriety of its Board members, Senior Management Function, Certification Function and Key Function holders. The policy is designed to ensure the regular, thorough and consistent assessments of relevant individual’s fitness and propriety.

The policy contains a definition of fitness and propriety and the collective qualification and experience requirements for the various relevant positions:

- **Members of the DAS LEI Board** must collectively possess appropriate qualifications, knowledge and expertise on insurance, financial markets, actuarial analysis, underwriting, regulatory framework and requirements, business strategy, business model and risk management. Each member must possess the qualifications, experience and knowledge required to fulfil the specific responsibilities assigned to him/her within the Board.
- **Executive Senior Management**, the remaining senior management members must possess the equivalent qualifications, experience and knowledge as outlined for Members of the Board to the extent relevant for their particular scope of responsibility.
- **Holders of Key Functions** must have the qualifications and experience required respective to their position, role and responsibilities as well as general knowledge of the insurance sector and specific knowledge of the firm.
- **Holders of Certification Functions** must have the qualifications and experience required respective to their position, role and responsibilities as well as general knowledge of the insurance sector and specific knowledge of the firm.

### *Process*

The Fitness & Propriety Policy provides guidance on how fitness and propriety are assessed based on the various sources of evidence gathered. It also provides guidance on the management of adverse findings as a result of assessments.

The fitness and propriety of relevant individuals is assessed prior to commencement of their role and on an ongoing basis thereafter.

- **New appointments** fitness and propriety are assessed by comparing the candidate’s profile (knowledge, skills, qualifications, skills and expertise) against the job description and requirements of the role, obtaining regulatory references and verifying the honesty, integrity, reputation and financial soundness of the individual via background screening and pre-employment checks.
- **Ongoing assessments** are carried out on at least an annual basis to ensure relevant individuals fitness and propriety subsequent to their initial appointment. These assessments include a self-certification, confirmation of ongoing competence through performance management and background checks to confirm continued propriety.

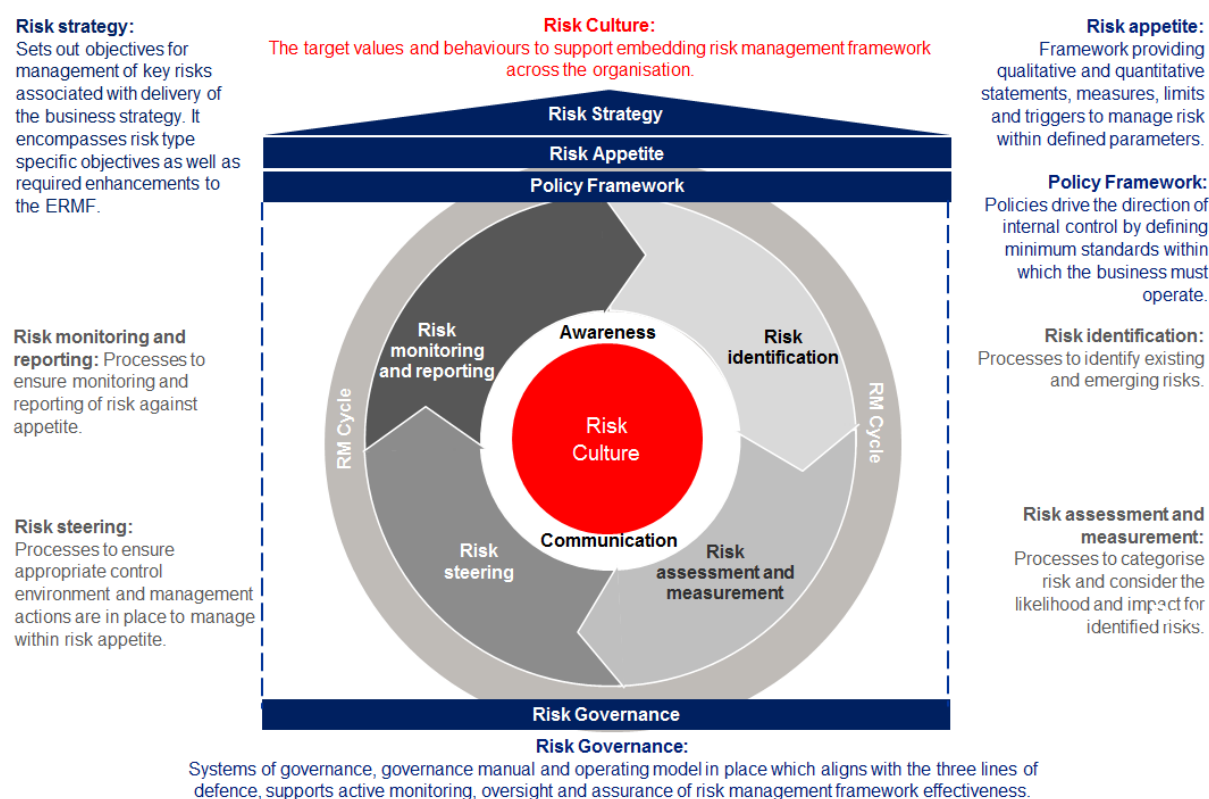
## B.3. Risk management system including the own risk and solvency assessment

### Description of the risk management system

DAS UK has implemented an Enterprise Risk Management Framework (“ERMF”) which, through the governance structure of DAS LEI, implements risk identification, assessment, management and reporting to the Board and its subcommittees.

### DAS UK Enterprise Risk Management Framework

The diagram below sets out the DAS UK Enterprise Risk Management Framework:

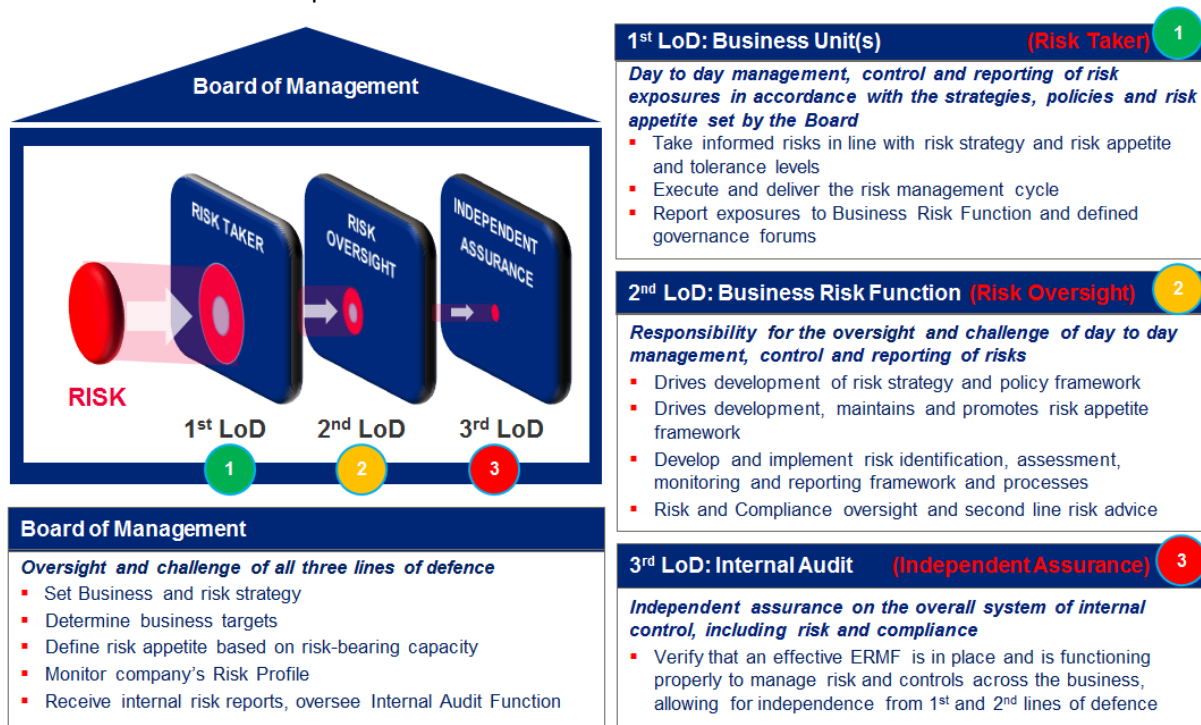


The figure above shows the components of the ERMF in DAS UK and implicitly links the key components of Governance, Board expressed risk appetite and overarching risk policies with the day-to-day risk management practices of DAS UK.

## Description of how the risk management system is implemented

As set out in the below diagram, DAS LEI’s organisational structure reflects the three lines of defence principles with key functions operating as essential components of the system of governance:

- Three lines of defence: facilitates clarity of responsibilities based on appropriate segregation of duties. An overview is shown below.
- Key Functions: DAS LEI has four separate key functions: Risk; Compliance; Actuarial and Internal Audit (“IA”), all of which have documented roles and responsibilities which align to SII and the SMCR requirements.



The DAS LEI Board is ultimately responsible for risk management within DAS LEI, and is supported with advice provided by the Risk Committee. The system of governance is formally defined within the DAS UK Holdings Governance Manual.

The risk management system comprises the following elements:

### i) Chief Risk and Compliance Officer reporting

The Risk and Compliance function is led by the Chief Risk and Compliance Officer, who reports directly to the DAS UK CEO and has dotted-line reporting to the ERGO Chief Risk Officer and ERGO Chief Compliance Officer. The Chief Risk and Compliance Officer is a Senior Management Function holder (SMF4 and SMF16) under the FCA/PRA rules.

### ii) Compliance with the DAS UK Holdings - Governance Manual

The following are key extracts as they relate to risk management:

**DAS UK Holdings’ Risk Committee** is responsible for providing oversight and advice to the DAS UK Holdings Board and DAS LEI Board in relation to current and potential future risk exposures of DAS UK and future risk strategy, including determination of an appropriate risk appetite and risk tolerance. It also has responsibility for reviewing and approving various formal reporting requirements and promoting a risk awareness culture within DAS UK.

**Executive Management Committee (“EMC”)** - All Senior Managers (direct reports to the CEO), including the Chief Risk and Compliance Officer, are members of the EMC. All DAS UK Management Committees directly report into the EMC on matters that they deem appropriate as defined in their Committee Terms of Reference. See “Management Committees” section in B.1 for further information on the responsibilities of the EMC.

**Executive Management Audit & Risk Committee** – Design and implementation of the Group’s Risk Management Framework from a 2nd line of defence perspective. See “Management Committees” section in B.1 for further information on the responsibilities of the Executive Management Audit & Risk Committee.

### ***Risk cycle – risk identification***

Risk identification processes ensure the complete and consistent identification of relevant risks and controls. These processes include:

- Internal Control System (“ICS”) - key functional processes are reviewed on a regular basis to ensure that all significant risks and key controls have been identified and captured with appropriate owners assigned;
- Corporate risk profiling - senior management team identify, agree and rank corporate level risks;
- Departmental Risk Profiling – “bottom-up” risk identification primarily with an operational risk focus;
- Programme and project risk profiling – facilitated by the project owners and/or sponsors and subject to project management principles;
- Risk events - the crystallisation or potential crystallisation of an operational failure triggers a review to ensure that associated risks and controls have been captured, and the issue has been resolved and any potential further risks have been suitably considered; and
- Emerging risk process - process to identify emerging risks through the regular monitoring of changes to the internal and/or external business environment which may impact the existing/future risk profile.

As risks can be identified at all levels of the organisation, risk identification processes involve staff throughout DAS UK from all hierarchy levels (employees, managers, Board).

### ***Risk cycle – risk assessment and measurement***

DAS LEI uses risk scales to ensure the consistent measurement of all identified individual risks. The risk scale scores risks considering the likelihood of materialisation and the potential impacts. The consolidated risk profile is also assessed on a quarterly basis by the defined governance structure, through review and challenge of regular risk management information.

In addition, there are Board-approved risk appetite statements which in turn are assessed by monitoring underlying key risk indicators. The consolidated risk profile is assessed on a quarterly basis by the defined governance structure, through review and challenge of pre-defined risk management information.

Stress-testing, scenario analysis and solvency requirements calculation processes support the assessment and measurement of extreme events, considering the impact upon solvency and the need for contingency planning and management of extreme events.

### ***Risk cycle – risk steering***

Risks are steered in accordance with business and risk strategy, aiming to keep within approved risk appetites and to take appropriate action on specific risk triggers. Risk steering aims to reduce the probability of the risk occurring or the impact should it materialise.

In all cases, any deficiencies identified through risk and control assessment, risk event management or risk assurance processes will result in the identification and progression of appropriate management

action. Day to day risk steering and execution of processes in line with defined methodology is the responsibility of senior management.

**Risk cycle – risk monitoring and reporting**

Risk monitoring processes ensure continued consideration of risk exposures against appetite and strategy, at both an individual and consolidated risk level. Monitoring processes are in place within business functions through quality assurance and control testing. These processes are subject to oversight from the Risk Function.

The third line IA function completes a defined programme of independent assurance through delivery of the annual IA plan.

Internal risk reporting is in place to provide a detailed information basis for management decisions. Internal risk reports include information in relation to risk profile and appetite, risk events, emerging risks, regulatory liaison, oversight and assurance activity, policy compliance and capital performance.

External risk reporting is undertaken in accordance with regulatory requirements.

**Process undertaken to conduct the Own Risk Solvency Assessment (“ORSA”)**

The ORSA is recognised as an important management tool in the strategic decision-making process with the forward-looking assessment of own risks through:

- Providing management with a comprehensive view on all material quantifiable and non-quantifiable risks that DAS LEI is currently exposed to or may face in the future, the overall solvency needs that follow from that risk exposure and how these needs can be satisfied in all relevant dimensions;
- Ensuring that economic steering coincides with regulatory requirements in an adequate/reasonable way. DAS LEI cannot simply assume that regulatory capital requirements are adequate for the business and risk profile; and
- Providing insight into the quality of the management's understanding of risk.

The following illustration sets out the three main steps of the ORSA:



**The ORSA process**

The ORSA encompasses numerous processes in the area of risk management, business strategy/planning and capital management. The main task of the ORSA itself is to bring these processes together, to collect and assess the outcome of the individual processes and to report these results at regular intervals.

### **ORSA Report**

The ORSA is the central tool for the Risk Management Function (“RMF”) to provide comprehensive ORSA relevant information to DAS LEI’s Board.

The ORSA contains the results of DAS LEI’s own risk and solvency assessment. It represents the annual risk report, documents the risk strategy and records the key aspects of internal guidelines on risk management and capital management. DAS LEI’s Board discusses and approves this document. Individual aspects are documented in more detail in relevant policies, hand-books and process documentation.

Once the ORSA has been performed and the results challenged and approved by the Board, communication of the results and conclusions must be ensured by the RMF.

Final Board approval signals the end of the annual regular ORSA process. The approval is documented in the minutes of DAS LEI’s Board meeting.

### **Roles and responsibilities regarding the ORSA process**

#### **Board**

DAS LEI’s Board has ultimate responsibility for the ORSA. In particular, the Board has the following responsibilities regarding the ORSA:

- DAS LEI’s Board has to challenge and approve the business plan as a basis for the forward-looking perspective. It has to discuss the key assumptions to assess the validity of the business plan and possible sensitivity to risk drivers;
- DAS LEI’s Board has to challenge and approve the ORSA outcome. The ORSA is the central tool for DAS LEI’s Board. The report provides DAS LEI’s Board with a comprehensive picture of the risks the business is exposed to or those it could face in the future. It enables DAS LEI’s Board to understand these risks and the corresponding model and how the risks translate into capital needs;
- DAS LEI’s Board has to review and challenge the results of the risk profile analysis and the Risk Strategy documented in the ORSA;
- DAS LEI’s Board has to ensure that the results of the ORSA are taken into account in terms of capital management, business planning and product development and design; and
- DAS LEI’s Board receives interim updates on core ORSA elements via the various reporting and decision-making processes. It has to discuss the information and decide if actions or further analysis and information are required.

#### **Risk Management Function**

The RMF supports DAS LEI’s Board in fulfilling its obligation to prepare the assessment. The RMF is responsible for compiling the ORSA.

#### **Regularity of review**

The ORSA Report is the central tool for DAS LEI’s Board. It completes the outcome of the underlying processes by summarising all the relevant aspects once a year.



## **Determination of own solvency needs**

### ***Capital management strategy***

Focused on analysis and monitoring capital adequacy requirements and ratios, it also aims to achieve optimal capitalisation from the Munich Re Group perspective, taking restrictions from single entities into account. The capital management activities are considered as part of the ORSA process.

See “Objectives, policies and processes employed in managing own funds” in section E.1 for DAS LEI’s capital management procedures.

## **B.4. Internal control system**

### **Description of Internal control system (“ICS”)**

ICS forms a key element of DAS LEI’s overall governance system. The design of the internal control environment is based on a strong corporate culture with the Board and senior management setting the “tone at the top”.

The ICS covers all levels of the group as well as outsourced areas and processes where appropriate. ICS is used primarily to ensure that the controls over our critical processes are designed appropriately and operating effectively. ICS systematically links key controls and steering measures with the significant operational risks within business processes. In this context, significant risks are defined as those, which alone, or cumulatively, could jeopardise a critical process (based on a self-assessment of the responsible process owner). A key control is seen as a control that is implemented to mitigate this risk.

Key controls and steering measures are identified, analysed and assessed in respect to the effectiveness of critical processes, the reliability of financial reporting and compliance with laws, regulatory and internal rules, and procedures. To facilitate this, controls are implemented on a company, process and IT level. Criteria have been defined to determine whether a process contains significant operational risks and individual materiality thresholds have been defined.

The ICS comprises a process for the assessment, analysis and steering of the identified operational risks and corresponding controls. Net risks (net after control/mitigation) are compared with a predefined limit system (heat maps) and significant risks are managed as necessary through further reduction, transfer and/or intensive monitoring. The ICS’s operational risk self-assessments are carried out regularly with Risk Management function oversight. The Risk Management function provides appropriate challenge and feedback where required. Results are reported up to the Board on an annual basis.

### **Description of the Compliance function**

DAS LEI has in place a Compliance function which operates as a second line of defence and is identified as one of DAS LEI’s four Key Functions. The Compliance function is independent of the business and provides both technical guidance and oversight of operational compliance matters.

In addition, formal reporting on DAS LEI’s compliance performance is reported quarterly to both the Conduct and Compliance Committee and Risk Committee on all applicable compliance disciplines. All regulatory incidents are reported through to the Risk department as per the risk event management process and highlighted where applicable to the Compliance function for on-going support and oversight to remediation.

## **B.5. Internal Audit function**

### **Internal Audit Function**

DAS UK Internal Audit supports the Board of Directors of DAS UK and is mandated to:

- Develop and apply a risk-based approach in order to prioritize audit activities as well as to establish and maintain an audit plan;
- Perform planned audit engagements;
- Submit written audit reports and recommended actions to the Board Audit Committee of DAS UK, and other senior and executive managers having a legitimate interest in the report; and
- Follow-up on audit action implementation.

Only the Board of Directors of DAS UK is entitled to commission DAS UK Internal Audit to perform audits or audit related activities. The scope of DAS UK Internal Audit covers the entire organisation of DAS UK, including its System of Governance.

### **Independence and Objectivity**

DAS UK Internal Audit is an independent function of DAS UK. DAS UK Internal Audit is only directed by the Board of Directors of DAS UK with regards to the execution of the audit plan and other audit and non-audited related services. DAS UK Internal Audit does not have responsibilities for or perform non-audit activities, such as business operations of other units of DAS UK.

DAS UK Internal Audit may assume consulting services considering carefully potentials for conflicts of interests. However, fulfilment of the audit plan has priority over consulting activities.

## **B.6. Actuarial function**

The Actuarial function for DAS UK is performed by the Chief Actuary of DAS LEI, who reports to the CFO of DAS UK.

The Actuarial function is accountable to the DAS LEI Board, but in practice reports to the Audit and Risk Committees of DAS UK Holdings, which are formal subcommittees of the DAS UK Holdings Board. The Actuarial function is identified in the DAS UK System of Governance Policy as a “Key Function” and its responsibilities are defined therein.

The SII Standard Formula processes and results are the overall responsibility of the Risk Management Function, which apportions the work to the Chief Actuary’s department. All other items that are listed in Article 48 of the SII Directive, and paragraph 6.1 of the “Conditions Governing Business” Chapter of the PRA Rulebook, are the responsibility of the Actuarial function, and are performed by the Chief Actuary’s department with no direct support from any other functions.

## B.7. Outsourcing

The PRA Rulebook defines 'outsourcing' as 'an arrangement of any form between a firm and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be undertaken by the firm itself'. This definition derives from Article 2(3) of MODR (Commission Delegated Regulation on organisational requirements and operating conditions) and Article 13(28) of SII.

SII Article 49 defines 'material outsourcing' as "*outsourcing of critical or important operational functions or activities*" and prescribes that such arrangements "*shall not be undertaken in such a way as to lead to any of the following*:"

- *materially impairing the quality of the system of governance of the undertaking concerned;*
- *unduly increasing the operational risk;*
- *impairing the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations; and*
- *undermining continuous and satisfactory service to policy holders."*

DAS UK has systems and controls in place to identify and manage its outsourcing arrangements, including material outsourcing arrangements. Where a material outsourcing arrangement is identified DAS LEI notifies these arrangements to the FCA and PRA as required by the respective regulators rules

DAS LEI's material outsourcing arrangements, which are primarily UK-registered companies, relate to:

- **Claims Management:** Legal services firms are engaged to perform claims management services and specifically making claims decisions on behalf of DAS LEI.
- **Policy Servicing:** Expert service providers who, depending on the insurance product, provide expertise to assist the policyholder.
- **Information Technology (IT) Services:** Technology services, including cloud service providers, which DAS LEI relies on to deliver its services to its policyholders in a continuous and satisfactory manner.
- **Investment Management:** Investment Managers are engaged to perform activities in relation to the management of DAS LEI's investment portfolio.

### Outsourcing Committee

The Outsourcing Committee is responsible for oversight of DAS UK's third party outsourcing policy. See "Management Committees" section in B.1 for further information on the responsibilities of the Outsourcing Committee.

### Processes

#### ***Outsourcing decision***

The decision to outsource originates from a requirement of individual business departments. It is therefore the responsibility of that department to ensure the arrangement is subjected to the requirements of the Outsourcing Policy and the jurisdiction in which the service providers of such functions or activities are located.

Any outsourcing arrangement must not:

- Materially impair the quality of DAS UK's system of governance;
- Prevent oversight of operations or delivery of regulatory obligations to clients and customers;
- Unduly increase DAS UK's risk profile in particular operational and reputational risks;
- Impair any relevant regulator's ability to monitor DAS UK's compliance; and
- Be detrimental to continuous and satisfactory service to DAS LEI's policyholders.

### ***Sourcing strategy***

For third parties excluding Business Partners, the requirements outlined in the “Procurement Tendering Process” section of the DAS UK Procurement Processes document must be complied with. For Business Partners the appropriate department processes and controls should be applied, which may include referral to the Transaction Committee.

### ***Contracting***

For all categories, contracting must be undertaken in line with the requirements contained in the DAS UK Group Procurement Policy and the Contract Procedure. The contract must be signed in line with the DAS UK financial authority limits in operation in the DAS UK Governance Manual.

The DAS UK Contracting Team undertake final negotiation activities. Any amendments to the contract terms that increase risk to DAS UK must be reapproved.

### ***Contract management and monitoring***

The performance of all categories of third party outsourcing arrangements must be monitored at an appropriate level to ensure they continue to meet their obligations. In addition, performance monitoring and risks must be reviewed periodically to ensure contract terms and monitoring criteria are valid, risks are appropriately mitigated, and issues are escalated.

### ***Termination***

Detailed plans for termination of Critical and High arrangements must be assessed and approved by the Outsourcing Committee in advance, including review of the risks and impacts of termination. An ad-hoc meeting of the Outsourcing Committee must approve unplanned external terminations or urgent termination requests.

## **B.8. Any other information**

There is no other material information regarding the system of governance to disclose.

## C. Risk Profile

The following section outlines DAS LEI's risk profile. Material risks and techniques and activities that are used to mitigate the risk exposures within DAS LEI's tolerance and appetite are described. In addition, the processes used to identify and monitor these risks are set out below.

DAS LEI's key risk exposures are to underwriting risk, market risk, credit risk, liquidity risk, operational risk, strategic risk, regulatory risk and reputational risk, as set out in the sections below. The stress-testing and sensitivity analysis for material risks and events, as required by Article 295(6) of the "Commission Delegated Regulations (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)" ("Delegated Regulations"), has been documented in section C.7 of this report to aid the reader. There is no additional voluntary information as permitted by Article 298 of the Delegated Regulations that is disclosed in section C.7. DAS LEI does not use special purpose vehicles to transfer underwriting risk.

### Covid pandemic

DAS LEI continues to be affected to some extent by the impact of the COVID virus and the government measures that were taken to contain it on those who undertake work for DAS LEI and other stakeholders, including suppliers, business partners and policyholders. DAS LEI continues to anticipate and respond to indirect impacts by second-order effects of the virus, including downturns in the economy and investment markets and on-going impacts on the judicial system.

Throughout the development of the pandemic, DAS LEI has performed a continuous assessment of the key risks associated with it, which include potential adverse impacts on employees, operations, claims experience and investment returns. DAS LEI has strong solvency and liquidity positions; and the quota share with ERGO limits the impact on the business of adverse claims development. Whilst uncertainty remains about how and when COVID impacts may continue to develop, robust measures have been put in place to mitigate the risks. Changes introduced to the operating model in 2020 and during 2021 to maximise capacity and provide resilience have been successful in maintaining resilience of services.

It is important to recognise that the COVID pandemic is not a risk in itself but a trigger for risks that were already assessed to be more likely to crystallise, including:

- Increase in claim frequency and/or value;
- Increased expenses linked to costs of employees or reduced productivity;
- A drop in new business volumes; and
- Reduction in investment returns.

DAS LEI's assessment at this time is that these factors are already considered in the articulation of the risk profile that follows in this section and that DAS LEI's solvency and liquidity positions remain adequate and appropriate.

DAS LEI continues to meet its contractual obligations to business partners, policyholders, suppliers and other stakeholders. Dedicated incident response governance and processes remained in place during 2021 and will be retained for as long as necessary. These operate in a rhythm that allows DAS LEI to react to developments surrounding the virus and government measures.

### Conflict in Ukraine

Throughout the development of the conflict, DAS UK, in conjunction with ERGO, has performed a continuous assessment of the key risks associated with it. As the future development of the conflict and the impact of sanctions remains unclear, there is a great deal of uncertainty as to the extent of the impact on DAS UK's business. The key risks identified in respect of the conflict relate to Information Security Risk and Market (Investment) Risk; these are detailed in sections C.2 and C.5 below together with mitigating action taken by DAS UK.

## C.1. Underwriting risk

Underwriting risk is defined as the risk that the costs of claims and benefits actually paid may deviate from the expected costs owing to error or change of circumstances.

DAS LEI has set a risk appetite in both Before the Event (“BTE”) and After the Event (“ATE”) business which is agreed by the Board. The appetite supports desired product and proposition development process and growth targets for these books of business. Concentrations are implicitly taken into account in the calculation of underwriting risk.

There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. There has been no material change in the Underwriting Risk profile over the year.

Risk exposures are identified and assessed at monthly intervals by business class, product line and by key business partner, with deep-dive analysis undertaken quarterly. Claim frequency and severity trends are measured against the risk profile and future proofed against forecast changes in the mix of claims, their cost and movements in claim frequency. Prices are negotiated with business partners annually, with interim performance reports provided to key business partners each quarter, forewarning them of impending rate strengthening.

The primary business classes that DAS LEI operates and the associated key risks are summarised below.

### **Before the Event (“BTE”)**

The product and proposition development process is effectively managed to ensure that:

- The targeting of business is in line with risk appetite;
- At portfolio level the return on capital is in line with targeted ratios; and
- The needs of the customer are met.

#### ***Motor (Class 100)***

Sold as an add-on to motor insurance by insurance brokers and insurers, the cover pursues uninsured losses and/or damages against a negligent third party following a non-fault motor accident.

##### *Risk:*

- Changes to the legal landscape arising from the Civil Liabilities Bill which was implemented in 2021, which has increased the cost charged by solicitors for handling/supporting claimants with Small Claims Track claims. This has resulted in an increase in premiums and additional risk factors for insurers to consider. Given the immature nature of the new regime, it is too early to determine the full impacts on insurers but this is being monitored closely.

#### ***Commercial Non-Motor (Class 200)***

Commercial LEI is sold primarily through schemes to micro/SME businesses as an add-on to commercial package insurance policies. The cover protects businesses against legal costs arising from disputes with employees, contract matters, property, criminal prosecutions and HMRC investigations.

##### *Risks:*

- Claim frequency could increase as a result of the economic impacts of the pandemic on the UK, and in relation to the next phase of “living with COVID”;
- Impacts of rising inflation levels across our indemnity spend; and
- DAS LEI is exposed to an increase in employment claims and contract disputes from a large number of consumers and businesses as a result of on-going Brexit implementation.



### **Personal Non-Motor (Class 300)**

Family LEI is primarily sold as an add-on to buildings and contents insurance, covering disputes with employers, suppliers of goods/services, neighbours and pursues a third party who has caused bodily injury (non-motor). Additionally, Landlord legal, protects private landlords against disputes with tenants (including rent default).

#### *Risks:*

- Claim frequency could increase as a result of the economic impacts of the pandemic to the UK, and in relation to the next phase of “living with COVID”;
- DAS LEI is exposed to a potential increase in employment claims and contract disputes from a large number of consumers and businesses as a result of Brexit and COVID; and
- Government intervention in temporarily banning tenant evictions and closing courts continues to incur additional rental liability on open claims occurring in 2019/20 and 2020/21 due to the significant backlog in cases. Underwriters and actuaries continue to undertake extensive forecasting of the impact of COVID on the portfolio.

### **Insured Assistance (Class 500)**

Home Emergency provides immediate assistance following damage to the building, including plumbing/drainage and heating system. Motor breakdown provides roadside assistance, repair and recovery in the UK and Europe. Both products are primarily sold on as an add-on to household and motor insurance.

#### *Risks:*

- Consecutive bad winters could lead to an unexpected surge in claims; motor breakdown, heating and frozen pipes;
- Climate change could impact the historical and seasonal pattern of claims. Warmer conditions could lead to fewer frozen pipes but more cracked pipes caused by subsidence;
- Continued impacts of COVID with more people spending longer at home due to working from home and isolation resulting in additional strain on systems; and
- There are a limited number of nationwide home emergency suppliers capable of servicing DAS LEI's customer base.

### **After the Event (“ATE”)**

The product and proposition development process is effectively managed to ensure that:

- The targeting of business is in line with risk appetite;
- At portfolio level the return on capital is in line with targeted ratios; and
- The needs of the customer are met.

### **Civil Litigation (Class 700)**

Provides cover to commercial and personal clients for litigation costs. Key areas are contract disputes, professional negligence, debt recovery, insolvency, and contentious probate & property disputes.

#### *Risk:*

- Civil Litigation produces a book of lower volume but considerably higher premiums, creating volatility in the book in the event of large wins/losses; and
- The increased risk of financial instability of firms managing large portfolios of cases.

### ***Clinical Negligence (Class 800)***

Provides cover to claimants for litigation costs in respect of their death/personal injury resulting from the negligence of a medical professional.

#### *Risks:*

- COVID pandemic impacts has extended delays in the progress and settlement of disputes; and
- The potential extension of the Fixed Recoverable Costs into Clinical Negligence cases will change the profile of cases insured by DAS LEI. Whilst other legislative changes are being proposed, including the end to any recovery from the opponent in successful Clinical Negligence claims.

### **Concentration risk**

Concentration risk could arise through Group Litigation Orders or their equivalents. There are occasions where numerous actions are brought due to a single cause, or against a single party for the same reason.

Over the years there have been a small number of groups of claims related to specific events or groups of people where DAS LEI has been the insurer for multiple claimants within that group. These cases have the potential for a higher cost due to the high number of claimants, although the amount per claimant is still low. However, most are run on a test case basis, with a single claim or a small group of claims used to represent the whole, which keeps costs lower. The courts are increasingly mindful of proportionality when looking at the potential costs of running any case or group of cases relative to the likely outcome, which is something that would work in DAS LEI's favour in the event of such a concentration. Contingency is built into IBNR factors and pricing models for the exposure to Group Litigation Orders.

DAS LEI's overall exposure has not changed significantly over the past few years in terms of the spread of risks, so the data from any concentration risks that have been experienced will be included within the overall reserving and capital modelling methodology.

### **Mitigation**

DAS LEI purchases reinsurance as part of its risks mitigation programme. The material arrangements are set out below:

#### ***Quota share reinsurance treaty – Legal expenses insurance, Assistance and Miscellaneous financial loss lines of business***

DAS LEI annually renews the terms of its reinsurance quota share with ERGO. The quota share helps maintain the Solvency Ratio at a level higher than it would otherwise be.

The principal purpose of the contract was to reduce risk and the Solvency Capital Requirement ("SCR") of DAS LEI. This has achieved the purpose and therefore is deemed effective, as evidenced by DAS LEI's strong 31 December 2021 SII capital position.

#### ***BTE excess of loss treaty – Legal expenses insurance line of business***

From 2006 to 2017 DAS LEI had an Excess of Loss Treaty in place with a panel of different reinsurers. This covered claims in excess of £100k (up to £500k) across its BTE business. In consideration of the proportion of the risk ceded under the ERGO quota share, the BTE excess of loss treaty was put into run-off from 1 January 2018. All but two of the treaties were commuted for a cash settlement during 2019, with the last two being commuted during 2020.

### ***Quota share agreements with Protected Cell Company schemes***

DAS LEI has agreements in place with Fiablé Insurance PCC Limited and Avantage Insurance PCC Limited. These relate to a portion of ATE business relating to personal injury, clinical negligence and industrial disease. In 2018 all of these agreements were given notice of termination and all are in run-off from Q2 2019.

### ***Quota share agreement with ARAG Allgemeine Versicherungs AG***

In 2019 DAS LEI agreed the sale of the Irish business to ARAG. From the initial transfer date 100% of the business still underwritten by DAS LEI was ceded to ARAG Allgemeine Versicherungs AG. The reinsurance treaty remained in place until the Part VII transfer was completed at the end of July 2020 and then immediately terminated with no run-off period.

### ***Quota share agreement with HSB Engineering Insurance Limited***

DAS LEI has a reinsurance agreement with HSB Engineering Insurance Limited to cede 100% of cyber-related claims and premium under certain legal expenses insurance policies.

### ***Quota share agreement with HDI Global Speciality SE***

DAS LEI has a 50% quota share arrangement with HDI Global Speciality SE (formerly Inter Hannover plc), affecting Class 700 business (this terminated 31 December 2015 and is now running off).

## **C.2. Market risk**

Market risk is defined as the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from fluctuation in the level and the volatility of market prices of assets, liabilities and financial instruments, including their correlations.

DAS LEI is exposed to market risk as a consequence of fluctuations in values or returns on assets, liabilities and financial instruments which are influenced by one or more external factors. These include changes and volatility in interest rates, equity prices, credit spreads, inflation expectations and currency exchange rates. See market risk mitigations sections below for how DAS LEI manages these risks.

There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. The market risk profile for DAS LEI has changed little year-on-year and reflects DAS UK's market risk appetite, investing mainly in high-rated government and corporate bonds.

DAS LEI has set an appetite for market risk that has been agreed by the Board of DAS LEI, which is considered appropriate primarily to safeguard DAS LEI's robust capital position without unduly limiting its access to returns on investment assets.

### ***Interest rate risk***

DAS LEI defines interest rate risk as the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from "the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates". This is not considered a material risk to DAS LEI.

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in the term structure or volatility of market interest rates. Floating rate instruments expose DAS LEI to cash flow interest risk, whereas fixed interest rate instruments expose DAS LEI to fair value interest risk. Interest rate risk arises primarily from DAS LEI's investments in fixed interest securities and their movement relative to the value of insurance liabilities, which are reported on an undiscounted basis. Certain insurance liabilities (e.g. deposits from reinsurers) may also give rise to interest rate risk where their terms and conditions stipulate fixed interest rates of return due to the counterparty.

### *Spread risk*

DAS LEI defines spread risk as the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from 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.

### *Concentration risk*

DAS LEI recognises and assesses any additional risks to an insurance or reinsurance undertaking stemming from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

### *Equity risk*

DAS LEI defines equity risk as the risk of loss, or of adverse change in the financial situation resulting directly or indirectly from the volatility of equity values. This is not currently considered a material risk to DAS LEI due to its relatively small equity holding.

### *Climate Change Risk*

The DAS UK Investment Committee currently uses the MSCI Environmental & Social Corporate Governance (ESG) rating system to balance its investment portfolio and has agreed targets for ESG investments. DAS LEI's investment portfolio was specifically tested against the PRA climate change stress tests for its resilience. The portfolio showed excellent resilience to all such tests.

## **Mitigation**

DAS LEI's investment management approach is fully aligned with its risk appetite. DAS LEI adopts a number of mitigation strategies to understand and control its market risk exposures. DAS LEI's strategies are focused on sound policies and procedures, all relevant expertise, and ongoing monitoring of key data. The mitigations in place ensure that the impact of market risk on DAS LEI's business is negligible. As a result, DAS LEI is able to meet its liabilities as they fall due, fund long-term projects and maintain a robust capital position.

Exposures are controlled by the setting of investment limits and managing asset-liability matching in line with DAS LEI's risk appetite.

In common with all ERGO legal entities DAS LEI pursues an investment strategy that is substantially based on the characteristics of the maturity and currency structure of its liabilities. In addition to return, safety and creditworthiness, the investment strategy considers liquidity, diversification and above all the structure of the insurance liabilities. The principal objective is to minimise investment risks and volatility while achieving the highest investment return possible within those parameters. This strategy is set out in DAS LEI's investment mandate, and managed by the Investment Committee which includes risk management representation.

The DAS LEI investment portfolio is managed by Munich Re Group Investment Management ("Munich Re GIM"), DAS UK's appointed Investment Manager. The Mandate, which is reviewed annually, forms part of the investment management contract between DAS UK and Munich Re GIM. The Mandate sets out investment guidelines, specifying permitted asset classes and quality constraints, taking into account any relevant tax, accounting and local supervisory regulations. The Mandate defines key figures and trigger thresholds for monitoring purposes. Munich Re GIM is responsible for the implementation of the Mandate, which reflects DAS UK's cautious investment strategy.

The Mandate is substantially based on the maturity structure of DAS LEI's insurance liabilities; it also considers return on investment, creditworthiness, currency risk and diversification.

The Mandate is subject to approval by DAS UK's Investment Committee. The Mandate must comply with the Investment Guidelines from ERGO and the Mandate proposals are subject to agreement by the ERGO Asset Liability Management Committee.

### ***Investment Management Governance***

An Investment Committee meeting takes place quarterly and its purpose is to provide senior managers and the Board with oversight of investment management arrangements and delegated authorities. The Investment Committee's duties include the review of management information, monitoring of the Investment Manager's performance against key metrics, monitoring of compliance with regulatory requirements and oversight of market risk management arrangements and contractual agreements.

### ***Investment Management Principles***

The key considerations underpinning DAS LEI's investment strategy are set out below.

#### ***Interest rate risk***

DAS LEI's securities portfolio is managed by Munich Re GIM who are DAS LEI's appointed investment managers. The investment mandate is reviewed and revised annually. It is approved by the DAS UK Group Investment Committee, which is chaired by the Chief Financial Officer of DAS LEI. In addition, as required by the SII directive, DAS LEI's investments are made with reference to the "Prudent Person Principle".

Exposure to interest rates is monitored through several measures factored into the investment mandate, such as target portfolio modified duration, minimum rating allowed for investment and issuer limit for corporate bonds.

Other risk monitoring techniques include economic capital modelling, sensitivity testing and stress and scenario testing.

87% (2020: 92%) of DAS LEI's investments, which includes cash, are held in fixed interest instruments denominated in British pounds. DAS LEI has no other significant concentration of interest rate risk. The cash balance has increased to 11% (2020: 7%).

#### ***Spread risk***

This is mitigated by tracking DAS LEI's exposure to lower-rated bonds and other lower-quality assets and limiting them according to the defined appetite.

#### ***Concentration Risk***

DAS LEI identifies and assesses any risks stemming from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers. DAS LEI's investment portfolio is well-diversified to mitigate this risk.

#### ***Currency Risk***

The Mandate aims to ensure that investments denominated in non-Sterling currencies are permitted only to the extent that they support liabilities denominated in foreign currencies.

As a consequence of adopting these principles and governance, DAS LEI's exposure to market risk operates within risk appetite.

#### ***Equity Risk***

Equity is not currently considered a material risk to DAS LEI due to its relatively small equity holding. DAS UK's Investment Committee monitors its equity holding at its regular meetings and, informed by

the Investment Manager's outlook for equities, may modify its equity allocation to reflect the Market Risk appetite agreed by the Board.

### **C.3. Credit risk**

Credit risk is defined as the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties (including reinsurers) and any debtors to which insurance undertakings are exposed, in the form of counterparty default risk, spread risk or market risk concentrations.

There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. There has been no significant change in the credit risk profile over the year.

DAS LEI has set an appetite for credit risk that has been agreed by the Board of DAS LEI, The aim of which is to mitigate credit risk to the extent that the costs of control are balanced with the expected rewards of implementation. DAS LEI accepts that its business model limits the extent to which credit risk can be mitigated but seeks over the longer term to implement procedures and initiatives that help reduce its exposure to credit risk.

The principal counterparty (credit) risk exposures arising in connection with DAS LEI's assets relates to the following assets:

- Reinsurance balances (including reinsurers' share of technical provisions);
- Investments in debt securities;
- Balances held with banks; and
- Insurance debtors.

DAS LEI also has less significant credit risk exposures relating to subrogation recoveries and other non-insurance debtors. DAS LEI assesses these risks as appropriate under the Standard Formula approach.

Credit Risk is monitored by management on a quarterly basis, the metrics for which are undergoing continuous enhancement.

#### **Mitigation**

##### ***Reinsurance balances (including reinsurers' share of technical provisions)***

Balances under proportional reinsurance arrangements are collateralised in excess of 95% by withheld deposits. For receivables under non-proportional reinsurance contracts the counterparty risk is diversified by placing the contracts with a number of highly-rated reinsurers.

DAS LEI is engaged in the following material reinsurance arrangements:

- A quota share arrangement with ERGO under which 90% of all business net of other reinsurance ceded;
- A 50% quota share arrangement with HDI Global Speciality SE (formerly Inter Hannover plc), affecting Class 700 business (this terminated 31 December 2015 and is now running off);
- Quota share arrangements with Protected Cell Company schemes, Fiablé Insurance PCC Limited and Avantage Insurance PCC Limited. These relate to a portion of ATE business relating to personal injury, clinical negligence and industrial disease. All of these arrangements are in run-off; and
- A 100% quota share arrangement with HSB Engineering Insurance Limited, a fellow Munich Re subsidiary, relating to Cyber insurance. The arrangement is to cede all premiums and claims. Claims handling costs and expenses are not ceded.

The total reinsurers' share of technical provisions at 31 December 2021 was £139,693k (2020: £129,545k). The substantial majority of these balances relate to the 90% quota share contract with ERGO, £141,137k which has a Standard and Poor's ("S&P") credit rating of AA-.



### ***Investments in debt securities***

Exposure to credit risk in respect of debt securities is controlled using a number of targets and limits incorporated in the investment mandate, which include target portfolio modified duration, minimum rating allowed for single investments and issuer limits for debt securities.

DAS LEI's investment portfolio is well-diversified and is invested principally in high-quality corporate and government debt instruments. The principal types of market risk impacting DAS LEI and the mitigations in place in respect of such are detailed in the market risk section.

### ***Balances held with banks***

DAS LEI holds all of its cash with highly-rated organisations. Funds can be deposited only with banks and deposit-takers that have been approved by the Board and by ERGO. The governing criteria are set out in ERGO International Cash Guidelines, which set out the maximum permitted level of funds that can be held with each approved bank or deposit taker. In most circumstances, that maximum is limited to 5% of DAS LEI's total investments. A daily summary of funds held on deposit is produced by the Finance Department and includes the current credit rating of each bank used.

### ***Insurance debtors***

The ageing of Insurance debtors are monitored on a quarterly basis and all outstanding debtors are actively pursued. In addition there has been enhanced monitoring due to COVID in the year.

## **C.4. Liquidity risk**

Liquidity risk is defined as the risk that the undertaking is unable to realise investments and other assets in order to settle financial obligations when they fall due.

DAS LEI has set a risk appetite for its ability to meet any policyholder or other financial obligations as they fall due that has been agreed by the Board. Mitigation strategies are in place which seek to minimise exposure whilst taking a proportionate account of costs of control. These are monitored on a regular basis in accordance with the DAS UK Liquidity Risk Policy ensuring that even under adverse conditions DAS LEI has access to the funds necessary to cover its claims obligations and other trading liabilities.

There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. There have been changes to the liquidity risk profile over the year.

The management strategies and processes described below ensure that sufficient funds are available to meet trading liabilities as they are presented for payment. DAS LEI's cash flows can be volatile as they are dependent on the timing of payments and receipts, which is to some extent beyond DAS LEI's control. Funds are held in very liquid accounts or securities and are always greatly in excess of the liabilities falling due in the short term. DAS LEI's liquidity position is strong; consequently no costs are likely to arise from requirements to liquidate investment assets at short notice.

### **Mitigation**

DAS LEI adopts a number of mitigation strategies to address its exposure to liquidity risk. These are focused on forecasting and planning liquidity requirements and maintaining sufficiently liquid assets to meet potential short to medium-term spikes in demand for cash.

DAS LEI mitigates liquidity risk by holding material treasury positions in immediate call accounts and highly liquid securities which are always in excess of the liabilities falling due in the short term:

- Substantial funds are held in bank accounts to meet DAS LEI's ordinary working capital requirements;

- DAS LEI generally invests most of its available funds not required for day-to-day working capital purposes in its investment portfolio, a significant proportion of which comprises very liquid securities such as UK gilts; and
- Cash accounts are maintained to receive income from investment securities and to channel funds to and from the investment portfolio.

Cash flow projections are produced daily based on actual bank holdings and a forecast of payments due. These are accompanied by monthly liquidity reports with appropriate triggers to drive escalation. The liquidity risk profile remains stable and DAS LEI remained within appetite for the duration of the year.

As explained in the “Market Risk” section above, DAS LEI’s investment strategy aims broadly to match the currency denomination, maturity and value of its assets to its technical liabilities. This helps ensure that DAS LEI retains sufficient liquidity to meet its policyholder liabilities.

### **Expected profit in future premiums**

The expected profit included in future premiums as at 31 December 2021 is £16,746k (gross of reinsurance) (2020: £18,086k).

## **C.5. Operational risk**

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

The DAS UK Risk Management Policy sets the framework and expectations of the Board for the effective management of risks including operational risks, although there were no changes to the inherent material risks. There has been no significant change in the operational risk profile over the year.

DAS LEI is exposed to the risk of losses as a result of failed internal processes, people and systems or from external events. Operational risk can take many different forms, and as such there is significant scope for losses to occur from a variety of sources. The operational risk profile consists of the following operational risk categories:

- Business Continuity,
- Data Management,
- Fraud,
- Information & Cyber Security,
- Information Technology,
- Legal,
- People,
- Outsourcing and Third Parties, and
- Transaction Processing and Execution

DAS LEI has set risk appetites for operational risks that have been agreed by the Board of DAS LEI, and makes continuous efforts to strengthen the control environment. This recognises that operational risk should generally be reduced to as low a level as is commercially sensible, on the basis that taking operational risk will rarely provide an upside, and operational failures may adversely impact reputation, impair the ability to attract new business, or possibly lead to poor customer outcomes. However, the risk strategy does not operate to a zero-failure policy and that events and losses are inevitable. Consequently, DAS LEI operates mitigation strategies which seek to minimise the exposure to operational risk whilst taking a proportionate account of costs of control.

A review of the associated risk appetite Key Risk Indicators (“KRIs”) was completed to allow for improved tracking of the operational risk profile.

Key areas of risk exposure include:

### ***Information & Cyber Security***

This remains an active area for risk management and the risks from cyber-attack and of data loss features highly on the corporate risk profile and is monitored by the Executive Management Audit & Risk Committee and Board closely. The business retained ISO27001 accreditation in 2021, and remains committed to continuous investment and improvement to deliver a control environment that meets the ever evolving threats associated with cyber risk.

### ***Business Continuity (Includes Operational Resilience)***

Whilst DAS UK has maintained services throughout the pandemic, impacts from the pandemic and measures taken in response continue to be a material source of risk exposure. There has also been continued focus on enhancing the underlying business continuity framework during 2021 to ensure it remains fit for purpose to manage other threats and respond to regulatory and Group requirements. Improvement activity is expected to continue throughout 2022 and beyond to ensure a sustainable framework is embedded.

### ***Outsourcing & Third Party***

DAS UK has inherent dependencies on third parties throughout its operating model. Maturing the control framework and associated KRIs has been an area of focus during 2021 that will extend into 2022.

### ***Data Management***

DAS UK has sought to increase its data management capacity and capability in 2021 in order to leverage data assets, support achievement of business objectives and meet legal and regulatory obligations. This remains an area for focus in 2022 as DAS pursues continuous improvement of the control environment given its recognition of the importance of Data and Information to its business strategy.

### ***Information Technology***

DAS LEI is exposed to risks associated with IT infrastructure failing to meet current and future business needs resulting in operational difficulties and creating a negative working experience for DAS UK employees. The risk profile in this area continued to be stressed during 2021 by the need to respond to the challenges presented by the COVID pandemic. DAS UK realises the heavy reliance on the current IT infrastructure and systems to facilitate key processes and outputs, which significantly heightens the potential impact for this risk from a customer journey perspective.

### ***People***

An increasingly competitive employment market has had an impact on DAS UK's ability to attract, train, and retain talent and/or critical skill sets required to deliver business objectives and support the future business model. This is particularly true for a small number of specialist roles. Initiatives have been implemented to further develop internal talent and leadership capability.

As reported in section *B.1. General information on the system of governance*, there have been a number of Board and Executive Management changes in 2021.

### ***Transaction Processing & Execution***

Responding to the COVID pandemic has affected the way in which processes and services are delivered. Managing risks and opportunities associated with increased flexibility and remote working continue to be a key area of focus, but DAS LEI expects to continue to meet its contractual obligations to business partners, policyholders, suppliers and other stakeholders.

Actual direct operational loss experience has been immaterial and has mainly arisen through a group of unconnected payment events. Whilst these are not directly connected each had elements of manual processing and process adherence as a contributory factor. The exposure is predominately that knowledge, in particular for legacy/heritage systems, is retained by an employee as opposed to processes and their associated controls being formally documented – which leaves a gap in expertise if the employee was to leave DAS UK. ERGO Group led and DAS UK internal control system activities

originally planned for 2021 will now be delivered in 2022 to provide opportunities to improve the risks associated with processes.

### **External**

Operational risks that arise from the external landscape include the exposure that DAS UK fails to understand and/or plan for loss of key partners, resulting in loss of distribution capacity and disintermediation. Although DAS UK recognises concentration risk, it is difficult to significantly dilute the exposure as larger partners exist in the market place and continue to be desirable from a growth and profitability perspective. The focus for proactively managing the risk is to continue to diversify our relationships and allow for improved resilience in respect of the loss of a single partner.

### **Mitigation**

DAS LEI adopts a number of mitigation strategies to address its exposure to operational risk. The Risk Management Policy establishes minimum operating standards that must be in place to ensure a robust risk framework is maintained and provides an appropriate foundation for decision-making. The core outcomes, at a high level, that this policy is designed to achieve for all risks, including operational risks, are that:

- Risks are identified with appropriate processes and controls in place to prevent and mitigate the risk of operating outside of the defined risk appetite;
- Risks are assessed and measured to understand the materiality they present;
- Where risks operate outside of the defined risk appetite, appropriate and timely action is taken to resolve and escalate to senior management and where appropriate to the relevant regulator(s) through the defined regulatory reporting process;
- Where appropriate there is a formal risk acceptance process for operating outside defined appetite;
- DAS UK Group employees and governance forums understand the operational risk responsibilities applicable to their role and comply with those requirements or meet the processes and procedures that have been designed to comply with them; and
- Regular monitoring and reporting of the risk profile takes place to relevant committees.

Implementation of the ERGO Group's Internal Control System ("ICS") across the critical processes within DAS LEI further supports the mitigation of this risk.

## **C.6. Other material risks**

### **Regulatory risk (including conduct risk)**

Regulatory risk is defined as the risk that DAS LEI is exposed to fines, censure, and legal or enforcement action due to failing to comply with applicable laws, regulations and codes of conduct or legal obligations. Within DAS UK, Conduct Risk has been considered an extension of the regulatory requirement for a firm to pay due regard to the interests of its customers and ensure they are treated fairly. There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period unless explained. The regulatory risk profile has remained within appetite over the year.

Regulatory risk management processes are in place and are embedded across the Group, the methodology applied aligns with that of the Enterprise Risk Management Framework and also with the Compliance Minimum Standards as set by an intermediate parent company – ERGO. DAS LEI's strategy with regard to regulatory risk is to identify, assess, manage and control risk appropriately and to ensure fair outcomes within agreed and defined risk appetite.

Although DAS LEI is affected by a large range of regulatory regimes (Health and Safety, Employment, Environmental, Tax etc.) the primary regulators are the PRA and FCA. The remainder of this document will not attempt to distinguish between these regulatory regimes unless necessary to do so.

DAS UK has set a risk appetite that has been agreed by the Board, for:

- Regulatory risk that recognises that regulatory breaches could occur based on the day to day running of the business, but will take appropriate steps to ensure regulatory breaches are remedied with immediate effect. And
- Conduct risk, that recognises that things can and will go wrong on occasions, but has no appetite for systemic conduct risk arising from any element of the product lifecycle, which includes product design, sales, or after sales processes and culture.

To support this appetite, DAS UK has developed policies, processes and standards which provide the framework for the business and colleagues to operate within, in accordance with the laws, regulations and voluntary codes which apply to DAS UK and its activities.

DAS UK considers that the most effective way of managing regulatory risk is to embed a culture of integrity and high ethical standards whilst ultimate oversight responsibility remains with DAS LEI's Board of Directors. This culture is driven to align with both the UK regulatory standards (CoCON, SMCR etc.) and the expectations of ERGO.

**Material regulatory risks and their mitigations are as follows:**

**1. Failure to develop products, propositions and services which meet customer requirements around need and value as per regulatory expectations**

There is a risk that DAS LEI fails to meet regulatory expectations as set out in the principles of business, IDD, PROD, RPPD and thematic findings around value, product design and product governance which could result in poor customer outcomes with respect to products not meeting expectations or offering poor value. As a result, DAS LEI may generate customer detriment, poor customer outcomes and fail to put the customer at the heart of everything it does.

- Compliance oversight and involvement in product lifecycles and product design committees with opportunity to provide insight, oversight and challenge on issues, risks and concerns which could have an adverse impact on customer outcomes.
- Attendees to Transaction Committee, Product and Proposition Committee and Pricing and Reinsurance Committees.
- Quarterly updates on products provided at Conduct and Compliance Committee to Senior Management Team and Risk Committee.
- Ad-hoc advice and guidance on product design, value and governance queries provided by technical compliance professionals.
- Guidance notes produced clarifying regulatory obligations such as IDD.

**2. Failure to comply with regulatory requirements or failure to implement mandatory regulatory change initiatives**

There is a risk that DAS LEI fails to comply with regulatory requirements or change effectively which could result in regulatory intervention and scrutiny. Example regulatory change such as GDPR, IDD and SMCR could attract attention if not addressed, implemented and embedded appropriately potentially increases conduct and regulatory risk exposure. Thematic reviews, policy statements and consultation papers are examples of regulatory findings which, if not addressed appropriately, could result in customer detriment and regulatory scrutiny.

- Regulatory horizon tracking carried out to identify regulatory change initiatives published by the FCA/PRA.
- Provision of requirements summary by Head of Compliance and Chief Risk and Compliance Officer
- Dependent on size of change required, project involvement to manage change through to deadlines.
- Tracking and progress presented at Conduct and Compliance Committee, with issues, barriers and challenges discussed and actioned upon.
- Proportionate resource allocated to deliver change initiatives.
- Robust governance around decision making, roles, responsibilities and accountabilities.

**3. Failure to prevent fraud and financial crime through appropriate and proportionate frameworks, systems and controls**

Poor systems and controls around fraud potentially adversely increase claims leakage which has an impact for all consumers contained within the risk pool. Financial Crime systems and controls, if poorly implemented and poorly monitored increases risk exposure to legislative breach and penalties – especially in the area of Sanctions and AML requirements.

- Financial Crime and Compliance officer in situ within Second Line of Defence Compliance team.
- Financial crime and fraud policy in place to set standards and risk appetite, easily accessible to DAS UK.
- Financial Crime and fraud training provided to all employees via online learning module.
- Prescribed responsibility (*Responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime*) allocated to Chief Risk and Compliance Officer.
- Enhanced sanctions checking capability.

[Note – DAS LEI is not subject to the Money Laundering Regulations]



#### **4. Failure to ensure appropriate governance around decisions from a regulatory and conduct risk perspective**

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There is a risk that DAS UK do not have the appropriate mechanisms for regulatory and conduct risks to be visible and transparent throughout the three Lines of Defence which increases regulatory and conduct risk exposure.

- Compliance attendance at relevant committees to ensure regulatory and customer considerations are raised from a second line of defence perspective.
  - Material conduct and regulatory risks raised at Conduct and Compliance Committee for decisions and actions.
  - MI pack provided to Conduct and Compliance Committee for discussion and decisions on action required to mitigate risks.
  - Chief Risk and Compliance officer attendance at Risk Committee.
  - Ad-hoc decision making from Compliance via oversight and monitoring framework.
- 

#### **5. Failure to have sufficient oversight of the distribution chain**

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There is a risk that there are not proportionate and appropriate systems and controls in place to oversee the delegated activity throughout the distribution chain resulting in increased risk exposure to poor customer outcomes and poor value.

- Business Partner Assurance team in situ with responsibility for assurance reviews on business partner control environments.
  - Compliance oversight of business partner due diligence and BP assurance reviews.
  - Compliance involvement in business partner tenders.
  - Compliance attendance at Transaction Committees where decisions are made on new business partner deals.
  - Compliance consult on regulatory expectations with respect to impact on customer outcomes as a result of the length and complexity of distribution chains.
  - Compliance oversight of business partner contract drafting.
  - Reporting of business partner risks to Conduct and Compliance Committee.
  - Ad-hoc advice and guidance provided by compliance to first line on business partner change initiatives.
  - Business Partner Assurance review results and recommendations presented at Conduct and Compliance Committee.
-

The compliance oversight framework has the following components:

- A robust annual compliance monitoring programme, the continued effectiveness of these risks are considered through the ERMF;
- Annual evaluation of maturity of the DAS LEI compliance framework and adherence to ERGO Compliance Minimum Standards;
- Oversight and engagement by Compliance to ensure regulatory implications are factored into non-compliance discipline policies and procedures;
- Proactive management and tracking of regulatory horizon change; and provision of updates and reporting to senior management on applicable change across a variety of regulatory bodies;
- Implementation of regulatory awareness initiatives, including proactive engagement by compliance on significant business change and project management programmes; attendance at a variety of Governance fora overseeing regulatory considerations and challenging the business on decision making; inclusion in specific decision making regarding business opportunities, highlighting regulatory implications and potential changes based on regulator publications;
- Proactive management of assurance monitoring actions to mitigate exposure before it crystallises and proactive engagement in governance and control function meeting emerging regulatory standards and requirements coming out of FCA directives and thematic reviews;
- Proactive engagement with third line of defence function to ensure risk management activity and scheduled assurance assessment programmes are in alignment and support the business in the identification of regulatory risk and effective management controls; and
- Approval sought from relevant regulatory bodies before performing a regulated activity outside of existing and active permissions.

In addition to the above, DAS UK Compliance has an annual planning process to assess DAS LEI's ongoing regulatory exposure, and ensure assurance monitoring and assessment activity is completed.

Also, it ensures that DAS LEI are aware of future regulatory developments and confirms DAS UK's regulatory risk management approach and controls are effective, with sufficient oversight in place.

### **Reputational risk**

DAS UK's reputation with stakeholders, employees, customers and business partners is critical to the continued success of our business.

There has been continued development of the KRIs used to assess reputational risk this has not revealed any new material risk exposures. There has been no significant change in the Reputational Risk profile over the year.

DAS UK has set an appetite for threats to its reputation. In particular it will "take cost-effective measures to uphold its stakeholder's expectations and its reputation with both partners and policyholders".

The table on the following page uses the AIRMIC ("Association of Insurance and Risk Managers in Industry and Commerce") categorisation of Reputational risk and identifies some of the key controls in place at DAS UK against each attribute:

Risk Element	Description	Key DAS Controls
<b>Product and Services</b>	Issues that will reduce people's belief that DAS LEI delivers high quality products and services that are good value for money.	<ul style="list-style-type: none"> <li>• Customer surveys.</li> <li>• Complaints management.</li> <li>• Product development process.</li> <li>• Monitoring the market.</li> </ul>
<b>Innovation</b>	Issues that will reduce people's belief that DAS LEI are an innovative company that brings new products and services to the market first.	<ul style="list-style-type: none"> <li>• Transaction Committee.</li> <li>• Research &amp; Insight.</li> </ul>
<b>Workplace issues</b>	Issues that will reduce people's belief that DAS LEI has the best employees and that DAS LEI treat them well.	<ul style="list-style-type: none"> <li>• Performance management process.</li> <li>• Employee Engagement forum.</li> <li>• Reward &amp; recognition.</li> <li>• Recruitment processes.</li> <li>• Talent management.</li> </ul>
<b>Governance</b>	Issues that will reduce people's belief that DAS LEI are open, honest, and fair in the way we do business.	<ul style="list-style-type: none"> <li>• Speak up culture.</li> <li>• Processes, procedures, policies, committees.</li> <li>• Culture focussed on good conduct.</li> <li>• Internal Communications.</li> <li>• Employee surveys.</li> </ul>
<b>Citizenship</b>	Issues that will reduce people's belief that DAS LEI are a good corporate citizen who cares about local communities and the environment.	<ul style="list-style-type: none"> <li>• Corporate and Social Responsibility Programme.</li> </ul>
<b>Leadership</b>	Issues that will reduce people's belief that DAS LEI have a clear vision for the future and are a well-organised company.	<ul style="list-style-type: none"> <li>• Strategy workshops.</li> <li>• Town Halls with CEO.</li> </ul>
<b>Performance</b>	Issues that will reduce people's belief that DAS LEI are a profitable company with strong growth prospects.	<ul style="list-style-type: none"> <li>• Shareholder support.</li> <li>• Maintained S&amp;P rating.</li> </ul>
<b>Regulatory</b>	Issues that will reduce the perception of DAS LEI by a regulator in the UK.	<ul style="list-style-type: none"> <li>• Management of Regulatory Relationship.</li> <li>• Complaints management and DSAR management.</li> <li>• 3 Lines of Defence model.</li> <li>• Culture focussed on good conduct.</li> </ul>

### Climate change risk

During 2021, DAS UK completed an analysis of climate change risk and set a specific risk category and appetite statement. The analysis has looked to the short, medium and long term implications of this risk from an investment, product and operational viewpoint. Based on the analysis undertaken, including stress tests applied to claims and the value of our assets, DAS UK does not believe that climate change represents a significant short-term risk to the business. On-going analysis of climate change-related financial risks is embedded into our risk framework. DAS UK's clear aim will be to clarify what risks it is exposed to across transition, physical and liability transmission channels as well as to monitor the evolution of legal and regulatory requirements in this sphere.

The environmental impact of DAS UK's operations is monitored through our internal Corporate Social Responsibility programme. This is overseen by the Environment, Health and Safety Forum and is supported by a dedicated Environmental Team and a Sustainability Group. DAS UK reports its activities and impacts within its Annual Reports and Accounts.

DAS UK included within its 2021 investment mandate a target that at least 95% of the entire portfolio by value should be invested in assets with an MSCI 'A' rating or better by 31 December 2021. This target was achieved and remains in place.

### Concentration risk

There were no material changes to i) the measures used to assess the risk exposure, ii) the risk profile over the reporting period or iii) the mitigation used to manage the risks. For more detail on DAS LEI's concentration risk see section C.6 of the SFCR.

### Mitigation

Mitigation strategies for the other material risks identified in this section are consistent with those articulated in section C.5 above.

## C.7. Any other information

The stress testing and sensitivity analysis for material risks and events as required by Article 295(6) of the Delegated Regulations is documented below to aid the reader. There is no additional voluntary information as permitted by Article 298 of the Delegated Regulations that is disclosed in section C.7.

### Stress and Scenario Tests

DAS LEI is managed on a unified basis with other companies in DAS UK. DAS UK identified a number of extreme events that could have an impact on the financial position of DAS LEI. These have been determined through discussions with senior management and subject matter experts from across the business.

The base position used in the below scenarios was the latest Plan SII position, which had a projected SCR ratio for 2021 of 163%. The 2021 actual year-end position was broadly in line at 162%.

The scenarios considered are listed below. For each analysis below management has taken known material risks and created stressed scenarios and confirmed the adequacy of capital and considered further possible mitigating actions required to mitigate any impacts identified.

The scenarios that have been considered on a quantitative basis are as follows:

- Stress 1 – Change in ERGO quota share
- Stress 2 – System disruption
- Stress 3 – Claims surge
- Stress 4 – Impact of climate change on claims
- Stress 5 – Depletion of workforce

Each is presented in more detail in the following sections. The impact tables below show revised solvency coverage ratios.

#### Base position used

Base position	Metric	2021	2022	2023	2024	2025
	Solvency coverage ratio	163%	170%	169%	193%	215%

#### Stress 1 – Change in ERGO quota share

Assumption	The reinsurance quota share with ERGO reduces from 90% to 60% from 01/01/2022					
Base position	Metric	2021	2022	2023	2024	2025
	Solvency coverage ratio	98%	129%	95%*	98%*	98%*

\* See conclusion below.

### Stress 2 – System disruption

<b>Assumption</b>	A severe incident causes systems and data to be unavailable for one month. This results in the initial consequence of additional expenses in routing all calls to a third. Additional costs are incurred in both expert support for the restoration of IT systems and supporting the management of press and public relations. This is followed by an increase in dissatisfaction from policyholders and other business partners with resultant compensation. Once the systems are restored, it is assumed that there are additional expenses incurred in relation to overtime payments or use of third parties to recover to a BAU situation.					
<b>Base position</b>	<b>Metric</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>Solvency coverage ratio</b>	163%	152%	141%	167%	191%

### Stress 3 – Claims Surge

<b>Assumption</b>	A surge in claims is experienced, equivalent to the impact of COVID on claims incurred in 2021 and 2022 being 50% more severe than assumed in the forecast / plan, and impacting in 2022.					
<b>Base position</b>	<b>Metric</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>Solvency coverage ratio</b>	163%	156%	157%	182%	204%

### Stress 4 – Impact of climate change on claims

<b>Assumption</b>	Increase in claims for the home emergency book affecting only the last year of the plan, equivalent to the 2018 storm impacts multiplied three times and doubled in size over one winter season. Also non-ESG investments are devalued by 25%.					
<b>Base position</b>	<b>Metric</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>Solvency coverage ratio</b>	163%	170%	169%	193%	198%

### Stress 5 – Depletion of workforce

<b>Assumption</b>	A severe depletion of the claims handling workforce occurs, causing additional internal and external costs, as well as contractual penalties					
<b>Base position</b>	<b>Metric</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>Solvency coverage ratio</b>	163%	165%	165%	189%	211%

## Reverse Stress Testing

In addition to stress testing, DAS LEI also performs reverse stress testing of the business Plan. This is done by identifying a range of adverse scenarios that could lead to the business plans becoming unviable and working backwards to understand what circumstances could lead to these scenarios crystallising.

The table below summarises the key business failure scenarios and definitions identified along with mitigating actions:

Scenario Description and Impact	Mitigating Actions
<p><b>Sudden Increase in Longevity:</b> It was considered that a sudden or unexpected change in the liabilities of the defined pension scheme could result in the resources required to maintain the scheme leaving DAS LEI in an economically unsustainable position. This could be the result, for example, of a sudden uplift in longevity caused by a medical breakthrough, for example stem-cell treatments.</p> <p>In consideration of the potential implications of this scenario, it was noted that the pension scheme is already recognised on the Key Corporate Risks and is subject to ongoing monitoring and management. It was also recognised that any such event would impact systemically across all DB Pension</p>	<p>It was concluded that no further management action was required at this stage and that the precise nature of actions would be dependent on the factors present when the risk had begun to crystallise.</p> <p>Any pre-emptive action could have impacts on the reputation of the firm, in the case of consulting on a reduction in scheme benefits for example, or cause an economic drag on the organisation, in the case of over-funding the scheme.</p>

Scenario Description and Impact	Mitigating Actions
<p>schemes and that it would be hoped that a reasonable approach to managing such a situation would be nationally agreed.</p>	
<p><b>Shift In Market Behaviour:</b> Other markets have experienced disruption from the emergence of technology-based offerings and the decline of the traditional market players. Insurance is yet to experience a dramatic shift in either buyer or distributor behaviour connected to new technology, but the potential for a market disruption is present and the outcomes could render DAS LEI's propositions irrelevant or uncompetitive. It is considered that this could result in a terminal decline in the business as revenues fall below the level required for the viability of the business.</p> <p>In consideration of this scenario senior management were mindful of the relatively high barriers to entry under the currently regulatory regime, in particular the threshold conditions including the capital requirements for insurers and the current market pressures that regulate both the margin and size of the market. It is more likely that a new model of broker will emerge utilising robo-advice or other AI guided decision making, which could commoditise the market further and create an excessively price sensitive environment where a differentiated product, such as that within the LEI strategy, becomes very challenged.</p>	<p>Actions identified:</p> <ul style="list-style-type: none"> <li>• Continuation of the mitigating actions to the Key Corporate Risk relating to the maintenance of the IT Estate, which increase the chances of DAS LEI being a position to respond to changes with agility.</li> <li>• Ongoing monitoring of both changes in the DAS' key UK markets and trends in other parts of the globe with a view to having early warning of any key threats and opportunities that begin to emerge.</li> </ul>
<p><b>Collapse in investment values:</b> A 50% loss in the value of own-funds would result in insolvency. The DAS LEI investment portfolio is heavily weighted in Government Bonds, which are treated as having zero risk of default in the standard formula. Whilst these are traditionally safe investments both in terms of the capital value and the rate of return, a reverse stress test would be to understand how DAS LEI would be affected by, for example, a sudden and unpredictable collapse in credit rating of the UK Government. The lack of diversification within the investment portfolio makes this scenario more applicable to DAS than would otherwise be the case.</p>	<p>The mitigation to this Reverse Stress Test is that the investment position is kept under ongoing review by our investment managers (Munich Re Group Investment Management) and the DAS UK Investment Committee. Options for diversifying the investment portfolio are kept under review, including looking at rebalancing opportunities as gilts mature or circumstance change.</p>
<p><b>Cause Of Claims Shock (Landlords And Tenant):</b> Actuarial estimates that it would take a £100m claims shock (£14m net of reinsurance) to bring DAS LEI to the point of insolvency. Within the Landlord and Tenant book there are policies that carry rent guarantees with Limit of Indemnity of £250k. The reverse stress would be that the eviction ban imposed by the UK Governments (including the devolved assemblies) lasts for a length of time that would cause for claims size to grow at the same time as the claims frequency on the book increased, precipitated by, for example, economic impacts on the UK.</p>	<p>The management actions are already in train within DAS UK. There has been extensive modelling of the potential impacts of claims shocks across the classes of business and actions have been taken to change rate and / or policy wordings to ensure that renewal business is written on a commercially viable basis. In the normal course of business, this monitoring is undertaken both within Underwriting Reviews and as part of the Reserving processes.</p>

## Conclusions

The DAS Board agreed the analysis that there is no identified need for any additional capital as a result of any of the stress testing and reverse stress testing scenarios considered.

Despite the ratio dropping to slightly below 100% in Scenario 1, in practice, it is fully expected that DAS LEI would receive adequate notice from ERGO of any future planned reduction in the cover provided by the QS, which would enable DAS LEI to put replacement cover in place on a timely basis.



## **Prudent person principle**

As with the stress and scenario tests and the reverse stress testing, the disclosure requirements on the prudent person principle in Articles 295(2) (c) of the Delegated Regulations are documented below to aid the reader.

DAS LEI ensures that its assets are invested in accordance with the prudent person principle as set out in Article 132 of the SII Directive, and hence sections 2, 3 and 5 of the “Investments” Chapter of the PRA Rulebook, through the collective application of its risk management policies. These ensure that DAS LEI invest in assets where the risks can properly identified, measured, monitored, managed, controlled and reported on to appropriately take into account in the assessment of its overall solvency needs. Assets are invested in a manner to ensure the security, quality, liquidity and profitability of the portfolio of assets of DAS LEI as a whole and localised such as to ensure their availability. Assets are invested in a manner appropriate to the nature and duration DAS LEI’s insurance liabilities and in the best interests of all policyholders.

## D. Valuation for Solvency Purposes

In accordance with 2.1 of the “Valuation” Chapter in the PRA Rulebook and Article 75 of the SII Directive, all assets and liabilities are valued at fair value.

The table below sets out, for each asset and liability shown on DAS LEI’s SII balance sheet, the SII value and the value of the corresponding asset and liability shown in DAS LEI’s financial statements, which are prepared in accordance with FRS 101 “Financial Reporting Standard 101 Reduced Disclosure Framework”. This standard applies the same recognition and measurement principles as International Financial Reporting Standards.

The reconciliation between the equity shown in the financial statements and the own funds for SII purposes is shown in section E.1.

At 31 December 2021 Amounts in £'000s	Financial statements	SII	Difference
<b>Assets</b>			
Deferred acquisition costs	5,539	0	5,539
Deferred tax asset	240	0	240
Property, plant & equipment held for own use	99	99	0
Investments (other than assets held for index-linked and unit-linked contracts)	136,798	137,357	(559)
<b>Bonds</b>	<b>134,101</b>	<b>134,660</b>	<b>(559)</b>
Government Bonds	86,941	87,238	(297)
Corporate Bonds	47,160	47,423	(262)
<b>Collective Investment Undertakings</b>	<b>2,697</b>	<b>2,697</b>	<b>0</b>
Reinsurance recoverables from:	217,644	139,693	77,951
Non-life excluding health	217,644	139,693	77,951
Insurance and intermediaries receivables	109,138	29,984	79,154
Reinsurance receivables	1,354	0	1,354
Receivables (trade, not insurance)	17,648	17,095	554
Cash and cash equivalents	17,110	17,110	0
Any other assets, not elsewhere shown	1,092	19	1,073
<b>TOTAL ASSETS</b>	<b>506,663</b>	<b>341,357</b>	<b>165,306</b>
<b>Liabilities</b>			
Technical provisions – non-life	248,902	155,695	93,207
<b>Technical provisions – non-life (excluding health)</b>	<b>248,902</b>	<b>155,695</b>	<b>93,207</b>
Best Estimate	n/a	153,462	n/a
Risk margin	n/a	2,233	n/a
Provisions other than technical provisions	150	150	0
Deposits from reinsurers	188,676	145,582	43,095
Deferred tax liabilities	0	969	(969)
Financial liabilities other than debts owed to credit institutions	101	101	0
Insurance & intermediaries payables	1,174	1,174	0
Reinsurance payables	1,454	1,368	85
Payables (trade, not insurance)	5,980	5,980	0
Any other liabilities, not elsewhere shown	33,986	469	33,518
<b>TOTAL LIABILITIES</b>	<b>480,424</b>	<b>311,489</b>	<b>168,935</b>
<b>EXCESS OF ASSETS OVER LIABILITIES</b>	<b>26,240</b>	<b>29,869</b>	<b>(3,628)</b>

Where the categories of assets and liabilities in the financial statements differ from the SII categories, the SII categories are shown in the table above. However included as a difference is the reclassification of accrued interest on bonds shown in “Receivables (trade, not insurance)” for the “Financial statements” column but in Bonds for SII purposes.

See Appendix 1 for the following QRTs that are required to be disclosed in relation to the Valuation for Solvency Purposes:

- S.02.01.02 - Balance sheet
- S.17.01.02 - Non-life Technical Provisions
- S.19.01.21 - Non-life insurance claims

## **D.1. Assets**

No changes were made to the recognition and valuation bases used or to estimations during the reporting period for SII reporting.

### **Deferred acquisition costs**

Deferred acquisition costs must be valued at nil according to SII regulations. In the financial statements, acquisition costs, which represent commission and other related expenses, are recognised over the period in which the related premiums are earned.

### **Deferred tax asset**

See deferred tax liability in section D.3 below.

### **Investments (other than assets held for index-linked and unit-linked contracts)**

All of DAS LEI's bonds are included in the SII balance sheet at fair value.

All of these assets are market to market, as quoted prices in active markets for identical assets are available. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis i.e. on the stock exchange.

DAS LEI also held a Collective Investment Undertaking which was valued at fair value for SII purposes.

DAS LEI's financial statements also record the value at fair value according to the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

The only difference between the financial statements valuation and the SII valuation shown in the balance sheet above is the interest accrued at the balance sheet date. For the SII valuation this is included in the underlying asset class, whereas for the financial statements it is disclosed as accrued income.

### **Reinsurance recoverables**

Reinsurance recoverables shown in the SII balance sheet are valued at fair value. The calculation of the recoverable amounts from reinsurance contracts for financial statement valuation and SII valuation is based on the same principles as for the technical provisions. Therefore similar to SII technical provisions, SII Reinsurance recoverables are lower than the financial statement valuation as there will be significant future reinsurance premium cash flows on ATE business which need to be considered when valuing these assets.

The value of this asset on the SII balance sheet has been adjusted for the expected level of default risk associated with such assets taking into account the credit-worthiness (rating) of the counterparty. The credit ratings of counterparties are also considered within the calculation of the SCR and additional risks taken into account if appropriate.

## **Insurance and intermediaries receivables**

Insurance and intermediaries receivables represent amounts due or past due but not yet paid by policyholders or intermediaries that are not included in cash inflows of technical provisions.

For DAS LEI's financial statements, this balance includes ATE premium written but not yet earned and also includes BTE instalment debtors. These receivables are measured at amortised cost, using the effective interest rate, less allowance for impairment.

Both of these items are included in the valuation of the technical provisions as they relate to future cash inflows.

The fair value of the remaining receivables is deemed to be materially the same as amortised cost given the short term nature of these assets.

The value of this asset on the SII balance sheet has not been adjusted for the impact of uncertain events, but the SCR incorporates an allowance for the potential default of counterparties at the 1 in 200 risk level. Please refer to the SCR in section E for further details.

## **Reinsurance receivables**

For DAS LEI's financial statements, this balance includes an amount owed by ERGO under the quota share reinsurance agreement. For SII, this is considered as part of Reinsurance recoverable as it relates to future cash flows associated with the reinsurance contract. The remaining balance is valued at fair value. These balances and timing of payments, which are expected to be within one year, are fairly certain as they are set out in the reinsurance contracts.

## **Receivables (trade, not insurance)**

These are included in the SII balance sheet at fair value. Given the short-term nature of these assets, this is deemed materially the same as amortised cost, which is the valuation used in the financial statements.

The SII valuation shown in the balance sheet above excludes the interest accrued at the balance sheet date, as these are included in the underlying asset classes. For the financial statements these are disclosed as receivables. Also see "Investments (other than assets held for index-linked and unit-linked contracts)" above.

## **Cash and cash equivalents**

Cash and cash equivalents are included in the SII balance sheet at fair value, being nominal value. DAS LEI's financial statements also record the value at fair value according to the provisions of IAS 39.

## **Any other assets, not elsewhere shown**

This balance mainly relates to a prepayment to a fellow DAS UK group undertaking. These items are valued at amortised cost for the financial statements. However for SII reporting, as the fair value is difficult to fully support this is valued at £nil.

## D.2. Technical provisions

Insurance undertakings have to establish technical provisions with respect to all their (re)insurance obligations towards policyholders and beneficiaries. The value of technical provisions corresponds to the current amount (re)insurance undertakings would have to pay if they were to transfer their (re)insurance obligations immediately to another (re)insurance undertaking.

The technical provisions have been calculated as a sum of the best estimate and risk margin and include all policies to which DAS LEI is contractually bound by the balance sheet date. The best estimate liability is made up of the sum of claims and the premium provisions.

### Claims provision

The outstanding claims provision represents the estimated cost of claims incurred as at the balance sheet date, together with profit shares and reinsurance settlements relating to incurred risks. The provision includes an allowance for claims management and claims handling expenses. It is calculated using best estimate discounted future cash flows.

The ultimate cost of outstanding claims is estimated using standard accident-period-based actuarial methods based on past claims payment patterns and current case reserves, with appropriate adjustments using expert judgement to ensure that they are applicable to the future.

In DAS LEI's financial statements, claims provisions are not discounted.

### Premium provision

The premium provision represents the estimated cost of future claims incurred and expenses arising from current and contractually bound insurance contracts net of future premium receipts.

The cost of future claims and expenses is estimated using actuarial projections based on expected loss ratios and appropriate expense/commission factors applied to unearned premiums and new business premiums for contractually bound business. These are based on recent experience, appropriately adjusted for trends and inflation, and checked for consistency with corresponding assumptions in the claims provision.

The discount rate applied to the premium and claims provision is the relevant risk free rate for each currency and duration of liabilities.

In DAS LEI's financial statements, premium provisions are the unearned premium reserve for all incepted business, and technical provisions are also subject to a liability adequacy test.

### Risk margin

A risk margin is added to the best estimate provisions to represent the additional cost of capital charge that a third party would require to take on and run off the liabilities (as represented by the technical provisions). The addition thus allows for the inherent uncertainty of future cash flow projections. This uncertainty generally relates to the risk that past claims trends may not apply in the future, for example, as a result of changes in economic conditions or internal factors, such as, claims management procedures.

The risk margin method is prescribed by the SII regulations and requires that a 6% cost-of-capital charge is applied to the present value of projected solvency capital for unhedgeable risks. The risk margin is calculated net of reinsurance.

The projected solvency capital is calculated by approximating the run-off pattern for material risks within the underwriting and operational risk modules.

A separate risk margin is not included in DAS LEI's financial statements.

The table below gives an overview of the technical provisions as at 31 December 2021 in both of the SII and financial statements balance sheets:

All amounts in £'000s	SII	Financial statements
Total gross	153,462	248,902
Risk margin	2,233	N/A
Reinsurance recoverable*	(139,693)	(217,644)
Total net	<b>16,002</b>	<b>31,258</b>

\*Total recoverable from reinsurance after the adjustment for expected losses due to counterparty default

The table below gives an overview of the net SII technical provisions, per SII line of business ("LOB").

#### Net (of reinsurance) technical provisions (£'000s)

Type	LoB	31 December 2021
	<b>Total</b>	<b>16,020</b>
Direct business and accepted proportional reinsurance	Legal expenses insurance	13,887
	Assistance	1,199
	Miscellaneous financial loss	934
Non-proportional reinsurance	<b>Total</b>	<b>(18)</b>
<b>Total</b>		<b>16,002</b>

The technical provisions in SII are calculated by each separate class and sub-class of product sold, and mapped to SII LOB split by direct or inwards reinsurance.

A more detailed breakdown of the above figures showing the best estimate and the risk margin separately is given below.

#### Direct business and accepted proportional reinsurance

##### Technical provisions: Legal expenses insurance LOB

31 December 2021 (£'000s)	Financial statements	Solvency II	Difference
Total gross	238,408	142,993	95,415
Risk margin	N/A	2,125	(2,125)
Reinsurance recoverable*	(208,333)	(131,213)	(77,102)
Total net	<b>30,075</b>	<b>13,887</b>	<b>16,187</b>

\*Total recoverable from reinsurance after the adjustment for expected losses due to counterparty default

##### Technical provisions: Assistance LOB

31 December 2021 (£'000s)	Financial statements	Solvency II	Difference
Total gross	3,077	3,451	(373)
Risk margin	N/A	40	(40)
Reinsurance recoverable*	(2,737)	(2,292)	(445)
Total net	<b>340</b>	<b>1,199</b>	<b>(859)</b>

\*Total recoverable from reinsurance after the adjustment for expected losses due to counterparty default

##### Technical provisions: Miscellaneous financial loss LOB

31 December 2021 (£'000s)	Financial statements	Solvency II	Difference
Total gross	7,417	7,047	370
Risk margin	N/A	67	(67)
Reinsurance recoverable*	(6,574)	(6,180)	(394)
Total net	<b>843</b>	<b>934</b>	<b>(91)</b>

\*Total recoverable from reinsurance after the adjustment for expected losses due to counterparty default

The explanation for the differences between the SII valuation and the financial statements by SII LoBs are the same for each LoB; these are noted in the "Claims provision", the "Premiums provision" and the "Risk Margin" sections above.



A lower level of detail for non-proportional reinsurance is not shown on grounds of materiality.

### **Level of uncertainty associated with the value of the technical provisions**

Technical provisions represent a probability-weighted estimate of all future cash flows. They are formulated by making actuarial selections for each component and adjusting the results for events not in data (“ENID”). Any estimation process is subject to uncertainty, but the following are the principal sources of ENID in the technical provisions.

ENID in Claims Provisions (“CPs”) is £3,700k (£3,700k at 31 December 2020). The key items justifying the ENID held in CPs are the extent and quality of data, level of sophistication of reserving methods (in particular the modelling approach taken for COVID) and changes over time in the legal environment.

For BTE and Assistance business Premium Provisions (“PPs”), the ENID assumption within the loss ratios was set at 2% of premium net of commission for all BTE classes, reflecting the level held for CPs and the risks underlying that assessment.

When deciding on the additional ENID assumption for ATE PPs, the following factors were taken into account:

- Policies have an indeterminate length of exposure because they are linked to the underlying legal process,
- The legal environment affecting the outcome of cases and recoverability of costs and premiums has changed substantially over the last few years and continues to evolve, and
- Civil litigation cases are small in number and large in size.

For these reasons, the ENID for incepted ATE policies was set at 15% of projected claims cost for civil litigation and 5% for other ATE classes. A small amount of legally obliged but not yet incepted business also carries a higher ENID loading.

### **Explanation of the differences between the valuation for SII and financial statements**

The gross undiscounted CPs are identical to the valuation in the financial statements booked reserves with the addition of the profit share reserve of £3,391k (2020: £2,385k). The booked reserves include an allowance for potential adverse experience, which is removed and replaced with an identical amount for ENID.

Gross undiscounted PPs are significantly different from the corresponding values in the financial statements. These differences arise from the following sources:

- PPs reflect the estimated profit/loss from all future cash flows including deferred premium and commission payments and other technical income closely related to the insurance contract, rather than being a simple proportion of the gross premium; and
- PPs include the profit/loss from legally obliged new business within the contract boundary.

### **Reinsurance**

Reinsurance was applied to the claims and premium provisions to reflect the treaties in place described in Section C2.

The cash flow patterns of the deposits from reinsurers were assumed to follow those of the claims and expenses elements of the incepted unearned business. For the ERGO quota share treaty, interest payments were also calculated.

As the reinsurance commission arising out of the ERGO quota share treaty is payable on an earned basis, this was assumed to follow the same cash flow pattern as the reinsurance deposits, which is a proportionate simplification of the real settlement arrangement.

## Discounting and default adjustment

Discounting and default adjustments were made using the basis and method described by EIOPA amended by the PRA requirements where necessary.

## Changes in methodologies and assumptions since previous valuation

Changes in methodologies and assumptions since previous valuation are:

- The ERGO Quota Share renewed on 1 January 2022 under revised terms for the commission and profit share.
- Interest rate used for calculating the reinsurer deposit for ERGO has changed from a LIBOR to a SONIA basis and uses forward rates that take into account the market's expectations of future interest rates.
- All BTE classes have an additional loss ratio loading for expectations of future inflation for the length of the contract boundary.

## D.3. Other liabilities

For the values of the other liabilities please refer to the balance sheet at the start of section D. No changes were made to the recognition and valuation bases used or to estimations during the reporting period for SII reporting.

### Deposits from reinsurers

Deposits from reinsurers include funds withheld by DAS LEI that will cover the reinsurers' share of future claims and unearned premiums (excluding instalments and ATE premiums not yet due/notified). The deposit is discounted due to the longer term nature of the balance and hence is valued at fair value for SII purposes.

This balance is in respect of deposits held on behalf of two reinsurers, ERGO being almost the entirety. It represents ERGO's share of claims provisions and premiums. This has been valued as the present value of expected future cash flows, which includes payment of the deposit interest to ERGO under the reinsurance arrangement, allowing for the additional default risk associated with that counterparty. As the liabilities due under this arrangement are a share of the gross liabilities (claims and premiums associated with the core business of DAS LEI) it is appropriate to use the same risk-free discount rate here as in the technical provisions themselves.

### Deferred tax liabilities

Under SII, deferred tax assets and liabilities are calculated in compliance with International Accounting Standard ("IAS") 12 "Income Tax". In DAS LEI's financial statements, the same accounting standard is applied, therefore a consistent measurement principle is used.

Deferred tax assets and liabilities are determined by reference to the difference between the value of assets and liabilities for tax purposes and their carrying value in the SII balance sheet. Deferred tax assets and liabilities are carried at the value for which it is expected they can be realised in the future, i.e. where sufficient future taxable profits are expected.

Deferred tax assets are recognised if assets are lower in the SII balance sheet or liabilities are higher than in the tax balance sheet of DAS LEI and these differences will be offset in the future with tax effects (temporary differences). Deferred tax assets are also recognised for tax losses carried forward.

As at 31 December 2021, there were no tax losses carried forward.

The below table sets out the differences in deferred tax:

Breakdown of deferred tax in: (All amounts are in £'000s)	Financial statements	SII	Difference
Insurance and intermediaries receivable	-	20,238	(20,238)
Investments	-	153	(153)
Other assets/liabilities	56	267	(211)
<b>Deferred tax asset</b>	<b>56</b>	<b>20,658</b>	<b>(20,602)</b>
Net technical provisions incl. deferred acquisition costs	-	(10,121)	10,121
Investments	(296)	-	(296)
Other liabilities	-	(11,506)	11,506
<b>Deferred tax liability</b>	<b>(296)</b>	<b>(21,627)</b>	<b>21,331</b>
<b>Net deferred tax (liability)/asset</b>	<b>(240)</b>	<b>(969)</b>	<b>729</b>

The valuation differences between the SII and the financial statements balance sheet positions generate the additional deferred tax assets and liabilities in accordance with SII requirements, resulting in an overall net deferred tax liability.

Future tax rate changes, relating to legislation substantially enacted at the balance sheet date, are reflected in the deferred tax valuation to the extent it has a material effect on the accounts. The following tax rates were substantively enacted at 31 December 2021:

Classification	Expecting timing of crystallisation of temporary difference	Deferred tax valuation rate
Short term	Prior to 1 April 2023	19%
Short term & Long term	From 1 April 2023	25%

The expected timing of crystallisation of temporary differences as at 31 December 2021 results in the rates applied as follows:

Item generating Temporary difference	Expect unwinding	Basis for unwinding rate	Rate applied
Insurance and intermediaries receivable	Both short-term and long-term	Long term unwinding portion valued at 25%	25%
Other assets	Short-term	Pre 2023 unwinding expected	19%
Net technical provisions incl. deferred acquisition costs	Both short-term and long-term	Long term unwinding portion valued at 25%	25%
Other liabilities	Short-term	Pre 2023 unwinding expected	19%
Investments	Short-term	Liquid investments	25%

The effect of the change of rate on the opening balances assuming the current long-term rate applies did not materially affect the deferred tax balances.

Deferred tax assets are recognised to the extent that recovery is probable, following consideration of future activity. The deferred tax asset recovery does not rely on future profitability.

## Insurance and intermediaries payables

Insurance and intermediaries payables represent amounts due or past due but not yet settled at the balance sheet date from policyholders, insurers and other business linked to insurance, but that are not technical provisions and are valued at their fair value. For DAS LEI's financial statements this balance includes commission in respect of ATE business. In addition, payables are measured at amortised cost, using the effective interest rate. The ATE commission is removed for SII reporting as it is considered part of the technical provision. The fair value is deemed to be materially the same as amortised cost given the short term nature of these assets. The timing of payments, which are expected to be within one year, and amounts are fairly certain.

## Reinsurance payables

For DAS LEI's financial statements this balance includes premiums in respect of reinsured ATE business. For SII valuation this is considered in the Reinsurance recoverables. The remaining balance is valued at fair value. These balances and timing of payments, which are expected to be within one year, are fairly certain as they are set out in the reinsurance contracts.

## Payables (trade, not insurance)

Payables, which are primarily intercompany balances, are included in the SII balance sheet at fair value, which is materially consistent with the valuation in the financial statements due to the short term nature of these debts. The timing and amounts are fairly certain.

## Any other liabilities, not elsewhere shown

These balances represent accruals and deferred income as recognised in the financial statements. This balance relates to reinsurance deferred acquisition costs in respect of unearned Quota Share Commission (£30,126k; 2020: £30,328k), and profit share owed to distribution partners (£3,391k; 2020: £2,605k). For SII valuation both of these items are considered in the valuation of the reinsurance recoverables and hence are removed for the SII balance sheet.

## D.4. Alternative methods for valuation

DAS LEI has used "mark-to-market" valuations for all bonds for SII reporting, as quoted prices in active markets for identical assets are available. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis i.e. on the stock exchange.

For all other assets and liabilities, there are no quoted market prices in active markets for those or similar assets and liabilities. These balances are held at fair value for SII reporting and comprise the following:

- Property, plant & equipment held for own use
- Deferred tax assets/liabilities
- Reinsurance receivables
- Insurance and intermediaries receivables
- Receivables (trade, not insurance)
- Any other assets, not elsewhere shown
- Deposits from reinsurers
- Financial liabilities other than debts owed to credit institutions
- Insurance and intermediaries payables
- Reinsurance payables
- Payables (trade, not insurance)
- Any other liabilities, not elsewhere shown

These are deemed the most appropriate valuation methods and are consistent with the approach used in the financial statements, which is based on the fair value concept. The nominal amount of the contractually owed asset or liability is used unless specified above. Due to the short-term nature of some of the assets, they are not discounted on grounds of materiality. DAS LEI regularly compares the valuations against experience.

All other assets and liabilities valuation methods are provided elsewhere in the Delegated Regulations. No material derogation has been used in the valuation of assets or liabilities.

## D.5. Any other information

There is no other material information to disclose.

## E. Capital Management

### E.1. Own funds

#### Objectives, polices and processes employed in managing own funds

Capital management focuses on analysis and monitoring capital adequacy requirements and ratios from the following key perspectives:

- Regulatory, and
- Rating capital requirements.

It also aims to achieve optimal capitalisation from the Munich Re Group perspective, taking restrictions from single entities into account.

DAS LEI is required to apply capital management procedures in accordance with the applicable regulatory and rating requirements, and standards defined by the Munich Re Group, in particular, the Munich Re Capital Management Guidelines. DAS LEI has set a risk appetite which is agreed by the Board.

The capital management process is a continuous cycle of monitoring and assessment actions designed to ensure that the business has a thorough understanding of the level of capital solvency needed to maintain the optimal level of capitalisation. The DAS UK Capital Management Policy establishes a framework detailing systems and controls for capital oversight and management. It seeks to ensure that DAS LEI adheres to regulatory and business requirements, and maintains an adequate level of capital to maintain optimal capitalisation from a regulatory and credit rating perspective.

The Board of DAS LEI is responsible for overseeing the management of capital in the best long-term interests of DAS LEI and its shareholders by agreeing an appropriate level of capitalisation and challenging the CFO over the effectiveness and appropriateness of the capital management framework and practices.

The CFO has primary executive responsibility for the management of capital adequacy issues and sets the capital management strategy, which the Board approves in line with DAS UK's established corporate governance framework. The CFO receives internal capital adequacy reporting from the Reporting Manager.

DAS LEI's time horizon for business planning, including solvency planning, is currently four years; in the prior year it was 5 years.

## Structure, amount and quality of own funds

The Solvency Capital Requirement, Minimum Capital Requirement and eligible own funds of DAS LEI are presented in the following table:

All amounts in £'000s unless stated	31 December 2021		31 December 2020	
	Total	Tier 1 - unrestricted	Total	Tier 1 - unrestricted
<b>Item</b>				
<b>Basic own funds</b>				
Ordinary share capital	13,000	13,000	13,000	13,000
Reconciliation reserve	16,869	16,869	18,831	18,831
<b>Total basic own funds after deductions</b>	<b>29,869</b>	<b>29,869</b>	<b>31,831</b>	<b>31,831</b>
Total available own funds to meet SCR	29,869	29,869	31,831	31,831
Total available own funds to meet MCR	29,869	29,869	31,831	31,831
<b>Total eligible own funds to meet SCR</b>	<b>29,869</b>	29,869	<b>31,831</b>	31,831
<b>Total eligible own funds to meet MCR</b>	<b>29,869</b>	29,869	<b>31,831</b>	31,831
SCR	18,417		16,881	
MCR	4,604		4,220	
Ratio of eligible own funds to SCR	162.18%		188.56%	
Ratio of eligible own funds to MCR	648.73%		754.22%	

The decrease in basic own funds is largely due to the impact of the statutory loss after tax for the financial year of £1,987k.

There are no ancillary own funds, and there were no own funds issued or redeemed in the year. No transitional rules were applied for and no restrictions to the own funds were required.

The own funds can be further explained as follows:

Basic own funds	31 December 2021 £'000	Description
Share Capital (Tier 1)	13,000	This is the allotted, issued and fully paid share capital and is included in Tier 1 capital in accordance with Article 69 (a) (i) of the Delegated Regulations. This ranks after all claims in the event of winding-up proceedings, is undated and not redeemable. Dividends are payable at the discretion of the Directors.
Reconciliation Reserve (Tier 1)	16,869	This is included in Tier 1 capital in accordance with Article 69 (a) (vi) of the Delegated Regulations.  This is calculated in accordance with Article 70 of the Delegated regulations as follows: i) total excess of assets over liabilities as calculated for solvency purposes, less the following: a) the share capital, and b) the net deferred tax asset shown in Tier 3 capital when applicable.  This is mainly made up of the following items: Retained profit and loss reserves and other capital reserves adjusted for the differences between the financial statements valuations and the SII valuations, see reconciliation below.
<b>Total basic own funds</b>	<b>29,869</b>	



## Material differences between equity in DAS LEI's financial statements and the excess of assets over liabilities as calculated for solvency purposes

The material difference between equity shown in DAS LEI's statutory financial statements and the excess of assets over liabilities as calculated for SII purposes is the differing valuations rules for assets and liabilities under the two regimes. See section D for detailed explanations of the differences between the valuations of the assets and liabilities. A reconciliation of SII own funds to equity presented in the financial statements is shown below.

### Reconciliation of SII own funds with equity in the financial statements

31 December 2021	£'000s
<b>Equity in financial statements</b>	<b>26,240</b>
Reinsurance recoverables adjustment in respect of future reinsurance premiums on ATE business (see section D.1)	(77,951)
Insurance and intermediaries receivables in respect of ATE premium written but not yet earned and BTE instalment debtors not yet received considered in valuation of technical provisions (see D.1)	(79,154)
Difference in the valuation of prepayments (see D.1)	(1,073)
Change in deposits from reinsurers due to treatment of ATE business not yet earned on the SII basis considered in the valuation of the reinsurance recoverables (see D.3)	43,095
Amount owed by ERGO under the quota share reinsurance agreement included under Reinsurance receivables for For DAS LEI's financial statements but for SII this is considered as part of Reinsurance recoverable as it relates to future cash flows associated with the reinsurance contract (see D.1)	(1,354)
Reinsurance payables premiums in respect of reinsured ATE business considered in the valuation of the reinsurance recoverables (see D.3)	85
Reinsurance deferred acquisition costs in respect of unearned Quota Share Commission, and amounts that will be repaid to reinsurers as their share of profit on the reinsured business considered in the valuation of the reinsurance recoverables (see D.3)	33,518
Change in technical provisions due to recognition on SII basis largely offsetting differences above (see D.2)	95,440
Risk margin added to best estimate technical provisions (D.2)	(2,233)
Removal of deferred acquisition costs (D.1)	(5,539)
Movement in net deferred tax (D.1)	(1,210)
Other	5
<b>SII basic own funds</b>	<b>29,869</b>

See Appendix 1 for the following QRT that is required to be disclosed in relation to the Own Funds: S.23.01.01 – Own funds.

## E.2. Solvency Capital Requirement and Minimum Capital Requirement

The SCR is calculated using the basis and method for the SII Standard Formula described by the SII regulations. The calculation of the SCR follows a two-step process to determine the SCR without material simplifying assumptions.

The following table shows the elements that contribute to the SCR at the most recent two year-ends.

Components of the SCR (€'000s unless stated)	31 Dec 2021	31 Dec 2020
Market risk	4,113	2,239
Counterparty default risk	6,727	5,955
Non-life underwriting risk	8,479	8,631
Diversification	(4,407)	(3,309)
Basic Solvency Capital Requirement*	14,912	13,516
Operational risk	4,474	4,055
Loss-absorbing capacity of deferred taxes	(969)	(690)
<b>Net Solvency Capital Requirements calculated using Standard Formula</b>	<b>18,417</b>	<b>16,881</b>
SII eligible own funds	29,869	31,831
Solvency ratio	162.18%	188.56%

\*(including the loss-absorbing capacity of technical provisions, which is zero in this case)

The SCR shown above is subject to supervisory assessment.

The SCR has increased due increases in market risk and counterparty default risk. These increases were partially offset by a decrease in non-life underwriting risk, an increase in diversification and an increase in LACDT.

The increase in market risk is driven mainly by:

- Introducing equities to assets held
- Increased concentration of some specific investments
- An increase in overall bond holdings, particularly corporate bonds

The MCR for 31 December 2021 is 25% of the SCR (the capital “floor” as prescribed in the regulations). The MCR increased in 2021 from £4,220k at 31 December 2020 to £4,604k at 31 December 2021. This reduction reflects movements in the SCR given that the 25% floor is applicable.

The relevant outputs relating to the MCR are shown in the table below:

31 December 2021	£'000s	%
Linear MCR	2,585	56.1
SCR with add-on	18,417	400.0
MCR cap	8,287	180.0
MCR floor	4,604	100.0
Combined MCR	4,604	100.0
Absolute floor of the MCR	2,116	45.9
<b>MCR</b>	<b>4,604</b>	<b>100.0</b>

### E.3. Use of the duration-based equity risk sub-module in the calculation of the SCR

DAS LEI introduced equities to the assets held during 2021. Equity risk has been calculated using the equity risk submodule set out in the standard formula regulations. The regulations also provide the definitions used to allocate the assets to the equity risk types.

£'000s	31 Dec 21	31 Dec 20
Type 1 Equities	2,655	0
Type 2 Equities	0	0
<b>Total Market Value of Equities</b>	<b>2,655</b>	<b>0</b>
<b>SCR Equity</b>	<b>1,218</b>	<b>0</b>

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

DAS LEI does not use an internal model. The SCR is determined using the standard formula without modification.

### E.5. Non-compliance with the MCR and non-compliance with the SCR

There are no instances of non-compliance to report. DAS LEI produces regular financial plans and forecasts to ensure that the risk of non-compliance with the SCR and MCR is insignificant.

### E.6. Any other information

There is no other material information regarding the capital management of the insurance or reinsurance undertaking to report.

## Appendix 1: Quantitative Reporting Templates

Appendix 1 also comprises Appendices 1.1 to 1.8, which contain the QRTs that are required to be disclosed in this document.

All amounts in this appendix are shown in £'000s, unless they are ratios, in accordance with the Commission Implementing Regulation (EU) 2015/2452<sup>1</sup> of 2 December laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council (“(EU) 2015/2452”).

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<sup>1</sup> As amended subsequently amended by further Commission Implementing Regulations.

## Appendix 1.1: S.02.01.02 - Balance sheet

All amounts are in £'000s.

		Solvency II value
		C0010
<b>Assets</b>		
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	99
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	137,357
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	0
Equities	R0100	0
Equities - listed	R0110	0
Equities - unlisted	R0120	0
Bonds	R0130	134,660
Government Bonds	R0140	87,238
Corporate Bonds	R0150	47,423
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	2,697
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	0
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	139,693
Non-life and health similar to non-life	R0280	139,693
Non-life excluding health	R0290	139,693
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	29,984
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	17,095
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	17,110
Any other assets, not elsewhere shown	R0420	19
<b>Total assets</b>	<b>R0500</b>	<b>341,357</b>

## Appendix 1.1: S.02.01.02 – Balance sheet (continued)

<b>Liabilities</b>		
Technical provisions – non-life	<b>R0510</b>	155,695
Technical provisions – non-life (excluding health)	<b>R0520</b>	155,695
TP calculated as a whole	<b>R0530</b>	0
Best Estimate	<b>R0540</b>	153,462
Risk margin	<b>R0550</b>	2,233
Technical provisions - health (similar to non-life)	<b>R0560</b>	0
TP calculated as a whole	<b>R0570</b>	0
Best Estimate	<b>R0580</b>	0
Risk margin	<b>R0590</b>	0
Technical provisions - life (excluding index-linked and unit-linked)	<b>R0600</b>	0
Technical provisions - health (similar to life)	<b>R0610</b>	0
TP calculated as a whole	<b>R0620</b>	0
Best Estimate	<b>R0630</b>	0
Risk margin	<b>R0640</b>	0
Technical provisions – life (excluding health and index-linked and unit-linked)	<b>R0650</b>	0
TP calculated as a whole	<b>R0660</b>	0
Best Estimate	<b>R0670</b>	0
Risk margin	<b>R0680</b>	0
Technical provisions – index-linked and unit-linked	<b>R0690</b>	0
TP calculated as a whole	<b>R0700</b>	0
Best Estimate	<b>R0710</b>	0
Risk margin	<b>R0720</b>	0
Contingent liabilities	<b>R0740</b>	0
Provisions other than technical provisions	<b>R0750</b>	150
Pension benefit obligations	<b>R0760</b>	0
Deposits from reinsurers	<b>R0770</b>	145,582
Deferred tax liabilities	<b>R0780</b>	969
Derivatives	<b>R0790</b>	0
Debts owed to credit institutions	<b>R0800</b>	0
Financial liabilities other than debts owed to credit institutions	<b>R0810</b>	101
Insurance & intermediaries payables	<b>R0820</b>	1,174
Reinsurance payables	<b>R0830</b>	1,368
Payables (trade, not insurance)	<b>R0840</b>	5,980
Subordinated liabilities	<b>R0850</b>	0
Subordinated liabilities not in Basic Own Funds	<b>R0860</b>	0
Subordinated liabilities in Basic Own Funds	<b>R0870</b>	0
Any other liabilities, not elsewhere shown	<b>R0880</b>	469
<b>Total liabilities</b>	<b>R0900</b>	<b>311,489</b>
<b>Excess of assets over liabilities</b>	<b>R1000</b>	<b>29,869</b>

## Appendix 1.2: S.05.01.02 - Premiums, claims and expenses by line of business

All amounts are in £'000s

Note: Columns C0010 to C0090, and Rows R1410 to R2600 are excluded from this QRT as DAS LEI do not write those types of business.

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	
<b>Premiums written</b>									
Gross - Direct Business	<b>R0110</b>	71,144	4,709	8,401					84,254
Gross - Proportional reinsurance accepted	<b>R0120</b>	38,934	0	0					38,934
Gross - Non-proportional reinsurance accepted	<b>R0130</b>				0	0	0	0	0
Reinsurers' share	<b>R0140</b>	99,149	4,238	7,560	0	0	0	0	110,948
Net	<b>R0200</b>	10,929	471	840	0	0	0	0	12,240
<b>Premiums earned</b>									
Gross - Direct Business	<b>R0210</b>	72,619	4,604	7,314					84,537
Gross - Proportional reinsurance accepted	<b>R0220</b>	36,612	0	0					36,612
Gross - Non-proportional reinsurance accepted	<b>R0230</b>				0	0	0	0	0
Reinsurers' share	<b>R0240</b>	98,464	4,144	6,582	0	0	0	0	109,189
Net	<b>R0300</b>	10,768	460	731	0	0	0	0	11,960
<b>Claims incurred</b>									
Gross - Direct Business	<b>R0310</b>	49,488	2,764	8,335					60,586
Gross - Proportional reinsurance accepted	<b>R0320</b>	27,083	0	0					27,083
Gross - Non-proportional reinsurance accepted	<b>R0330</b>				0	0	0	0	0
Reinsurers' share	<b>R0340</b>	69,061	2,493	7,517	0	0	0	0	79,071
Net	<b>R0400</b>	7,509	271	817	0	0	0	0	8,597
<b>Changes in other technical provisions</b>									
Gross - Direct Business	<b>R0410</b>	0	0	0					0
Gross - Proportional reinsurance accepted	<b>R0420</b>	0	0	0					0
Gross - Non-proportional reinsurance accepted	<b>R0430</b>				0	0	0	0	0
Reinsurers' share	<b>R0440</b>	0	0	0	0	0	0	0	0
Net	<b>R0500</b>	0	0	0	0	0	0	0	0
<b>Expenses incurred</b>	<b>R0550</b>	6,081	239	753	0	0	0	0	7,073
<b>Other expenses</b>	<b>R1200</b>								2,525
<b>Total expenses</b>	<b>R1300</b>								9,598



## **Appendix 1.3: S.05.02.01 - Premiums, claims and expenses by country**

Given that the home country represents more than 90% of the total gross written premiums, this template is not disclosed in accordance with the requirements of (EU) 2015/2452.

## Appendix 1.4: S.17.01.02 - Non-life Technical Provisions

All amounts are in £'000s.

Note: Columns C0020 to C0100 are excluded from this QRT as DAS LEI do not write those SII LoBs.

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total Non-Life obligation
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0110	C0120	C0130	C0140	C0150	C0160	C0170	
<b>Technical provisions calculated as a whole</b>	<b>R0010</b>	0	0	0	0	0	0	0	0
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	<b>R0050</b>	0	0	0	0	0	0	0	0
<b>Technical provisions calculated as a sum of BE and RM</b>									
<b>Best estimate</b>									
<i>Premium provisions</i>									
Gross	<b>R0060</b>	6,916	2,269	5,479	0	0	0	(29)	14,635
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	<b>R0140</b>	16,972	1,700	4,303	0	0	0	(10)	22,964
Net Best Estimate of Premium Provisions	<b>R0150</b>	(10,056)	569	1,176	0	0	0	(18)	(8,329)
<i>Claims provisions</i>									
Gross	<b>R0160</b>	136,077	1,182	1,568	0	0	0	0	138,827
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	<b>R0240</b>	114,259	592	1,877	0	0	0	1	116,729
Net Best Estimate of Claims Provisions	<b>R0250</b>	21,818	590	(309)	0	0	0	(1)	22,098
<b>Total Best estimate - gross</b>	<b>R0260</b>	142,993	3,451	7,047	0	0	0	(29)	153,462
<b>Total Best estimate - net</b>	<b>R0270</b>	11,762	1,159	867	0	0	0	(19)	13,769
<b>Risk margin</b>	<b>R0280</b>	2,125	40	67	0	0	0	1	2,233
<b>Amount of the transitional on Technical Provisions</b>									
Technical Provisions calculated as a whole	<b>R0290</b>	0	0	0	0	0	0	0	0
Best estimate	<b>R0300</b>	0	0	0	0	0	0	0	0
Risk margin	<b>R0310</b>	0	0	0	0	0	0	0	0
<b>Technical provisions - total</b>									
Technical provisions - total	<b>R0320</b>	145,118	3,491	7,114	0	0	0	(27)	155,695
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	<b>R0330</b>	131,231	2,292	6,180	0	0	0	(10)	139,693
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	<b>R0340</b>	13,887	1,199	934	0	0	0	(18)	16,002

## Appendix 1.5: S.19.01.21 - Non-life insurance claims

### Total Non-Life Business

Accident year / Underwriting year	<b>Z0020</b>	1 - Accident year
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All amounts are in £'000s.  
Gross Claims Paid (non-cumulative)

		Development year (absolute amount)										In Current year	Sum of years (cumulative)	
		0	1	2	3	4	5	6	7	8	9			10 & +
		<b>C0010</b>	<b>C0020</b>	<b>C0030</b>	<b>C0040</b>	<b>C0050</b>	<b>C0060</b>	<b>C0070</b>	<b>C0080</b>	<b>C0090</b>	<b>C0100</b>			<b>C0110</b>
Prior	<b>R0100</b>											838	838	838
2012	<b>R0160</b>	37,533	12,852	6,686	3,858	1,559	1,503	2,248	948	516	314		314	68,016
2013	<b>R0170</b>	43,633	12,938	6,512	2,993	2,117	2,969	1,224	764	279			279	73,429
2014	<b>R0180</b>	49,636	13,623	6,766	3,809	3,144	2,176	2,253	1,098				1,098	82,505
2015	<b>R0190</b>	61,486	19,421	6,109	6,323	3,051	3,161	1,791					1,791	101,343
2016	<b>R0200</b>	54,184	16,677	9,393	5,167	3,890	1,729						1,729	91,040
2017	<b>R0210</b>	47,371	13,928	8,185	6,713	3,436							3,436	79,633
2018	<b>R0220</b>	38,669	14,380	7,875	5,635								5,635	66,560
2019	<b>R0230</b>	38,926	13,811	5,860									5,860	58,598
2020	<b>R0240</b>	32,826	13,216										13,216	46,042
2021	<b>R0250</b>	40,776											40,776	40,776
Total	<b>R0260</b>												74,974	708,781

## Appendix 1.5: S.19.01.21 – Non-life insurance claims (continued)

All amounts are in £'000s.  
Gross undiscounted Best Estimate Claims Provisions

		Development year (absolute amount)										Current year, sum of years (cumulative)		
		0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)	
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
Prior	<b>R0100</b>												12,884	4,162
2012	<b>R0160</b>	0	0	0	0	9,319	6,016	3,056	1,671	1,902	1,286			1,261
2013	<b>R0170</b>	0	0	0	11,032	7,633	5,461	3,719	4,844	4,385				4,299
2014	<b>R0180</b>	0	0	16,296	9,735	6,547	4,675	4,026	3,155					3,093
2015	<b>R0190</b>	0	29,868	16,386	10,322	6,638	6,715	5,062						4,962
2016	<b>R0200</b>	50,506	28,224	15,306	10,051	8,322	7,326							7,181
2017	<b>R0210</b>	48,608	28,696	15,829	11,080	9,311								9,127
2018	<b>R0220</b>	50,451	31,286	16,894	13,041									12,784
2019	<b>R0230</b>	47,493	27,055	18,183										17,824
2020	<b>R0240</b>	40,232	28,016											27,471
2021	<b>R0250</b>	47,570												46,664
Total	<b>R0260</b>													138,827

## Appendix 1.6: S.23.01.01 – Own funds

All amounts are in £'000s.

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
<b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35</b>						
Ordinary share capital (gross of own shares)	<b>R0010</b>	13,000	13,000		0	
Share premium account related to ordinary share capital	<b>R0030</b>	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	<b>R0040</b>	0	0		0	
Subordinated mutual member accounts	<b>R0050</b>	0		0	0	0
Surplus funds	<b>R0070</b>	0	0			
Preference shares	<b>R0090</b>	0		0	0	0
Share premium account related to preference shares	<b>R0110</b>	0		0	0	0
Reconciliation reserve	<b>R0130</b>	16,869	16,869			
Subordinated liabilities	<b>R0140</b>	0		0	0	0
An amount equal to the value of net deferred tax assets	<b>R0160</b>	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	<b>R0180</b>	0	0	0	0	0
<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	<b>R0220</b>	0				
<b>Deductions</b>						
Deductions for participations in financial and credit institutions	<b>R0230</b>	0	0	0	0	0
<b>Total basic own funds after deductions</b>	<b>R0290</b>	29,869	29,869	0	0	0

## Appendix 1.6: S.23.01.01 – Own funds (continued)

All amounts are in £'000s unless were they are ratios.

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
<b>Ancillary own funds</b>						
Unpaid and uncalled ordinary share capital callable on demand	<b>R0300</b>	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	<b>R0310</b>	0			0	
Unpaid and uncalled preference shares callable on demand	<b>R0320</b>	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	<b>R0330</b>	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	<b>R0340</b>	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	<b>R0350</b>	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	<b>R0360</b>	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	<b>R0370</b>	0			0	0
Other ancillary own funds	<b>R0390</b>	0			0	0
<b>Total ancillary own funds</b>	<b>R0400</b>	0			0	0
<b>Available and eligible own funds</b>						
Total available own funds to meet the SCR	<b>R0500</b>	29,869	29,869	0	0	0
Total available own funds to meet the MCR	<b>R0510</b>	29,869	29,869	0	0	
Total eligible own funds to meet the SCR	<b>R0540</b>	29,869	29,869	0	0	0
Total eligible own funds to meet the MCR	<b>R0550</b>	29,869	29,869	0	0	
<b>SCR</b>	<b>R0580</b>	18,417				
<b>MCR</b>	<b>R0600</b>	4,604				
<b>Ratio of Eligible own funds to SCR</b>	<b>R0620</b>	162%				
<b>Ratio of Eligible own funds to MCR</b>	<b>R0640</b>	649%				

The Ratio of Eligible own funds to SCR and The Ratio of Eligible own funds to MCR are ratios and are therefore not in £'000s.



## Appendix 1.6: S.23.01.01 – Own funds (continued)

All amounts are in £'000s.

		<b>C0060</b>
<b>Reconciliation reserve</b>		
Excess of assets over liabilities	<b>R0700</b>	29,869
Own shares (held directly and indirectly)	<b>R0710</b>	0
Foreseeable dividends, distributions and charges	<b>R0720</b>	0
Other basic own fund items	<b>R0730</b>	13,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	<b>R0740</b>	0
<b>Reconciliation reserve</b>	<b>R0760</b>	16,869
<b>Expected profits</b>		
Expected profits included in future premiums (EPIFP) - Life business	<b>R0770</b>	0
Expected profits included in future premiums (EPIFP) - Non-life business	<b>R0780</b>	16,746
<b>Total Expected profits included in future premiums (EPIFP)</b>	<b>R0790</b>	16,746

## Appendix 1.7: S.25.01.21 - SCR - for undertakings on Standard Formula

All amounts are in £'000s.

Basic Solvency Capital Requirement		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	4,113		
Counterparty default risk	R0020	6,727		
Life underwriting risk	R0030	0	None	
Health underwriting risk	R0040	0	None	
Non-life underwriting risk	R0050	8,479	None	
Diversification	R0060	(4,407)		
Intangible asset risk	R0070	0		
<b>Basic Solvency Capital Requirement</b>	<b>R0100</b>	<b>14,912</b>		

Calculation of Solvency Capital Requirement		Value
		C0100
Operational risk	R0130	4,474
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	(969)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
<b>Solvency capital requirement excluding capital add-on</b>	<b>R0200</b>	<b>18,417</b>
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	18,417
<b>Other information on SCR</b>		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

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

Calculation of loss absorbing capacity of deferred taxes		C0130
LAC DT	R0640	(969)
LAC DT justified by reversion of deferred tax liabilities	R0650	(969)
LAC DT justified by reference to probable future taxable economic profit	R0660	0
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	(3,683)

## Appendix 1.8: S.28.01.01 - MCR — Only life/non-life insurance/reinsurance activity

All amounts are in £'000s.

Linear formula component for non-life insurance and reinsurance obligations

Rows R0200 to R0250 are excluded from this QRT as DAS LEI do not write those SII LoBs

		C0010		
MCR <sub>NL</sub> Result	R0010	2,585		
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
			C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		0	0
Income protection insurance and proportional reinsurance	R0030		0	0
Workers' compensation insurance and proportional reinsurance	R0040		0	0
Motor vehicle liability insurance and proportional reinsurance	R0050		0	0
Other motor insurance and proportional reinsurance	R0060		0	0
Marine, aviation and transport insurance and proportional reinsurance	R0070		0	0
Fire and other damage to property insurance and proportional reinsurance	R0080		0	0
General liability insurance and proportional reinsurance	R0090		0	0
Credit and suretyship insurance and proportional reinsurance	R0100		0	0
Legal expenses insurance and proportional reinsurance	R0110		11,762	10,805
Assistance and proportional reinsurance	R0120		1,159	205
Miscellaneous financial loss insurance and proportional reinsurance	R0130		867	1,185
Non-proportional health reinsurance	R0140		0	0
Non-proportional casualty reinsurance	R0150		0	0
Non-proportional marine, aviation and transport reinsurance	R0160		0	0
Non-proportional property reinsurance	R0170		0	0

Overall MCR calculation		C0070
Linear MCR	R0300	2,585
SCR	R0310	18,417
MCR cap	R0320	8,287
MCR floor	R0330	4,604
Combined MCR	R0340	4,604
Absolute floor of the MCR	R0350	2,116
		C0070
<b>Minimum Capital Requirement</b>	<b>R0400</b>	<b>4,604</b>

## Appendix 2: Glossary of abbreviations and terms

Abbreviations/Term	Definition
AIRMIC	Association of Insurance and Risk Managers in Industry and Commerce.
Alternative valuation method	Valuation methods that are consistent with Article 75 of the SII Directive and hence section 2 of the "Valuation" Chapter of the PRA Rulebook, other than those which solely use the quoted market prices for the same or similar assets or liabilities.
ARAG	Allgemeine Versicherungs AG, the insurer that purchased DAS LEI's Irish branch's business. The initial transfer, which excluded the transfer of the non-actuarial liabilities that were the fully reinsured with ARAG, was completed on 1 December 2019. The actuarial liabilities were transferred on completion of a Part VII transfer under the Financial Services and Markets Act 2000 on 31 July 2020.
ATE	"After the Event", this is the provision of insurance after a substantive incident has occurred and therefore the risk insured is the risk of losing the litigation. Cover is provided for defendants' costs, their own disbursements and premium indemnity. Solicitors have an alignment of interest as their own costs, which are not indemnified under the terms of the policy, are at risk.
BAFIN	Bundesanstalt für Finanzdienstleistungsaufsicht. This is the German regulator, which is responsible for Munich Re Group supervision. It is the German equivalent of the PRA.
BCM	Business Continuity Management.
Best estimate for non-life insurance obligations	This forms part of the TPs and is made up of the premium provision and the provision for claims outstanding. This is the best estimate of obligations that DAS LEI have in respect of all of the insurance policies that they have issued.
BTE	"Before the Event", this is the provision of insurance in the traditional sense, where cover is purchased to protect the policyholder in respect of the occurrence of potential future events.
CEO	Chief Executive Officer.
CFO	Chief Finance Officer.
Civil Litigation	Commercial and complex one-off pieces of litigation.
Concentration risk	All risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of insurance and reinsurance undertakings.
CoCON	The FCA's Code of Conduct rules, the FCA regulate DAS LEI for their conduct.
CPs	Claims provisions. The outstanding claims provision represents the estimated cost of claims incurred as at the balance sheet date, together with profit shares and reinsurance settlements relating to expired risks. The provision includes an allowance for claims management and claims handling expenses. It is calculated using best estimate discounted future cash flows.
Credit risk	See section C.3.
Critical or important outsourcing	See section B.7.
Currency risk	See section C.2.
DAS Law	DAS Law Limited, a fellow DAS UK company.
DAS LEI	DAS Legal Expenses Insurance Company Limited, the company that is required to prepare this SFCR.
DAS UK	This comprises of DAS UK Holdings and all of its subsidiaries. DAS UK is managed on a unified basis.
DAS UK Holdings	DAS UK Holdings Limited, the holding company of the DAS UK group of companies. It is also DAS LEI's immediate parent company.
Delegated Regulations	"Commission Delegated Regulations (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)" including subsequent amendments to that Regulation.
Diversification effect	The reduction in the risk exposure of DAS LEI related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated.
EIOPA	European Insurance and Occupational Pension Authority. The objective of EIOPA is to protect the public interest. Among its tasks is to contribute to the establishment of high-quality common regulatory and supervisory standards and practices in the European Union for insurers. EIOPA's powers include i) issuing guidelines to further clarify the Delegated regulations and the SII Directive, ii) developing templates to be used for public disclosure and in regulatory submissions (i.e. QRTs) and iii) developing draft changes to the SII regulations and the SII Directive, all through public consultations. These draft changes need to be endorsed by the European Commission before being enshrined into European legislation.
Eligible own funds	For DAS LEI, this means: (1) as to compliance with the SCR, the aggregate of DAS LEI's: (a) Tier 1 own funds; and (b) eligible Tier 2 own funds; and (c) eligible Tier 3 own funds; and (2) as to compliance with the MCR, the aggregate of DAS LEI's: (a) Tier 1 own funds; and (b) eligible Tier 2 own funds; Please note however, that DAS LEI does not currently have any Tier 2 or Tier 3 own funds (see section E.1 for further details).

Abbreviations/Term	Definition
EMC	Executive Management Committee. This Committee includes all Senior Managers within DAS UK and reports up into the Board.
ENID	Events Not In Data. These are events not deemed to be captured by the data which need to be separately allowed for within the best estimate calculations to take appropriate account of uncertainty.
ERGO	ERGO Versicherung AG, a fellow Munich Re Group company.
ERGO Group	ERGO Versicherungsgruppe AG, a fellow Munich Re Group company.
ERMF	Enterprise Risk Management Framework. This is the framework that the Governance structure of DAS LEI, implements risk identification, assessment, management and reporting to the Board and its subcommittees, see section B.3 for more details.
FCA	Financial Conduct Authority, they are responsible for regulating the conduct of DAS LEI and other UK regulated firms.
FCA Handbook	This is the where the FCA rules are located, DAS LEI are required to follow the conduct rules relevant to insurers.
FRS 101	"Financial Reporting Standard 101 Reduced Disclosure Framework". This is the basis on which DAS LEI's statutory financial statements are prepared. This applies the recognition and measurement of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and permits various disclosure exemptions.
Head of	Typically direct reports of the EMC members.
IA	Internal Audit.
IAS	International Accounting Standards.
IAS 12	An International Accounting Standard on "Income Tax".
IAS 39	An International Accounting Standard on "Financial Instruments: Recognition and Measurement".
ICS	Internal Control System. This is required to ensure DAS LEI is compliant with applicable laws, regulations and administrative provisions.
IFoA	Institute and Faculty of Actuaries, the UK's only chartered professional body dedicated to educating, developing and regulating actuaries based both in the UK and internationally.
Interest rate risk	See section C.2.
International Financial Reporting Standards	Where references to "International Financial Reporting Standards" are made it also includes International Accounting Standards. These are the Accounting Standards that need to be applied for companies adopting International Financial Reporting Standards.
INED	Independent Non-Executive Director
Key Functions	means each of the following in relation to the carrying on of the insurance business by DAS LEI: (a) the risk-management function; (b) the compliance function; (c) the internal audit function; (d) the actuarial function; (e) the function of effectively running DAS LEI; and (f) any other function which is of specific importance to the sound and prudent management of DAS LEI;
Liquidity risk	See section C.4.
LEI	Legal Expenses Insurance.
LoB	Line of business. The SII LoBs are set out in Annex I of the Delegated Regulations.
LOI	Limit of Indemnity.
Market risk	See section C.2.
Market risk concentrations	See section C.2.
Material outsourcing	See section B.7.
MEAG	Munich ERGO Asset-Management GmbH, a fellow Munich Re Group company.
MCR	Minimum Capital Requirement. The calculation of this number is defined in the SII regulations and is the capital required to ensure that DAS LEI will be able to meet its obligations over the next 12 months with a probability of at least 85%.  DAS LEI must hold eligible own funds covering the MCR. (Article 128 of the SII Directive and hence 2.1 in the "Minimum Capital Requirement" Chapter of the PRA Rulebook).  Breach of the MCR is designed, unless remedied quickly, to lead to a loss of the insurer's authorisation.
Munich Re	Münchener Rückversicherungs-Gesellschaft AG, DAS LEI's ultimate parent company.
Munich Re GIM	Munich Re Group Investment Management, DAS LEI's investment portfolio manager. They manage investments for Munich Re Group companies.
Operational risk	See section C.5.
ORSA	Own Risk and Solvency Assessment a SII requirements which forms part of DAS LEI's risk-management system.
PCC	Protected Cell Captive. A PCC is a single legal entity, made up of a core and a number of ring-fenced, protected cells.
Outsourcing	See section B.7.

Abbreviations/Term	Definition
PPs	Premium provisions. The premium provision represents the estimated cost of future claims incurred and expenses arising from current and contractually bound insurance contracts net of future premium receipts
PRA	Prudential Regulation Authority. They are DAS LEI's Prudential Regulator, and they have a general objective to promote the safety and soundness of the firms it regulates. DAS LEI are approved and regulated by the PRA.
Prudential Regulation Authority (or PRA) rules	These are the rules that are written by the PRA which DAS LEI need to comply with.
PRA Rulebook	This is the where the PRA rules are located, the rules that are applicable to DAS LEI are the Solvency II firm rules, see <a href="http://www.prarulebook.co.uk/">http://www.prarulebook.co.uk/</a>
QRTs	Quantitative Reporting Templates. These are templates need to be used for i) public disclosure as set out in Appendix 1 of this document, and in ii) some SII submissions to the PRA.
RMF	Risk Management function.
Scenario analysis	Means the analysis of the impact of a combination of adverse events.
SCR	Solvency Capital Requirement. The calculation of this number is defined in the SII regulations and is the capital required to ensure that DAS LEI will be able to meet its obligations over the next 12 months with a probability of at least 99.5%.  A firm must hold eligible own funds covering its SCR (Article 100 of the SII Directive and hence 2.1 in the "Solvency Capital Requirement - General Provisions" Chapter of the PRA Rulebook).  Breach of the SCR results in supervisory intervention designed to restore the SCR level of capital.
SF	Standard Formula. This is used by DAS LEI for the calculation of the Risk Margin, SCR and MCR.
SFCR	Solvency and Financial Condition Report, i.e. this document.
SII	Solvency II.
SII Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) including subsequent amendments to that Directive.
SII line of business	See LoB above.
Solvency II (or SII) regulations	This comprises various sets of legislation including the Delegated Regulations, Implementation rules, Technical Standards and Guidelines developed by EIOPA. However excluded from this definition are the SII Directive and the PRA Rulebook.
SIMF	Senior Insurance Management Function. That aspect of any key function relating to the carrying on of a regulated activity by DAS LEI, which is specified by the PRA in sections 3 to 10 of the "Insurance – Senior Insurance Management Functions" Chapter in the PRA Rulebook pursuant to section 59 of the Financial Services and Markets Act 2000. See SMF below however.
SIMR	Senior Insurance Managers Regime. This regime applied to the most senior executive management and directors who are subject to regulatory approval. Firms must allocate prescribed responsibilities across their Senior Managers setting out their duties. This forms part of the overall firm management and governance map. Under section 59 of the Financial Services and Markets Act 2000, authorised firms are required to ensure that individuals seeking to perform one or more of the PRA–designated Senior Management Functions seek PRA approval prior to taking up their position.
SMF	Senior Management Function, this superseded the SIMFs, see SMCR below. That aspect of any key function relating to the carrying on of a regulated activity by DAS LEI, which is specified by the PRA in the "Insurance – Senior Management Functions" Chapter in the PRA Rulebook pursuant to section 59 of the Financial Services and Markets Act 2000.
SMCR	Senior Managers and Certification Regime. On the 10th December 2018, the SIMR regime merged with the Banking Senior Managers and Certification Regime, specifically for Approved Persons. Existing roles were migrated to the revised framework in accordance with the requirements set out by the FCA and PRA.
Spread risk	See section C.2.
Regulatory risk	See section C.6.
Reverse stress-testing	This is done by identifying a range of adverse scenarios that could lead to the business plans becoming unviable and working backwards to understand what circumstances could lead to these scenarios crystallising.
Risk margin	Is the amount equal to the cost that a third party would incur in order to hold eligible own funds to cover the SCR necessary to support the insurance and reinsurance obligations over their lifetime.
Tier 1 own funds	The strongest form of Capital which is required to meet certain criteria as set out in the Delegated Regulations and the PRA Rulebook.
TP	Technical provisions. For DAS LEI, this is made up of the best estimate for non-life insurance obligations and the risk margin.
Underwriting result	See section A.2.
Underwriting risk	See section C.1.