

DAS Legal Expenses Insurance Company Limited

Solvency and Financial Condition Report
Year ended 31 December 2019



FIRST FOR JUSTICE

Table of Contents

<i>Summary</i>	3
<i>Statement of Directors' Responsibilities</i>	6
<i>A. Business and Performance</i>	7
A.1. Business	7
A.2. Underwriting Performance	9
A.3. Investment Performance	10
A.4. Performance of other activities	11
A.5. Any other information	11
<i>B. System of Governance</i>	12
B.1. General information on the system of governance	12
B.2. Fit and proper requirements	20
B.3. Risk management system including the own risk and solvency assessment	23
B.4. Internal control system	28
B.5. Internal Audit function	29
B.6. Actuarial function	29
B.7. Outsourcing	30
B.8. Any other information	31
<i>C. Risk Profile</i>	32
C.1. Underwriting risk	32
C.2. Market risk	36
C.3. Credit risk	39
C.4. Liquidity risk	41
C.5. Operational risk	42
C.6. Other material risks	43
C.7. Any other information	47
<i>D. Valuation for Solvency Purposes</i>	50
D.1. Assets	51
D.2. Technical provisions	53
D.3. Other liabilities	56
D.4. Alternative methods for valuation	58
D.5. Any other information	58
<i>E. Capital Management</i>	59
E.1. Own funds	59
E.2. Solvency Capital Requirement and Minimum Capital Requirement	61
E.3. Use of the duration-based equity risk sub-module in the calculation of the SCR	62
E.4. Differences between the standard formula and any internal model used	62
E.5. Non-compliance with the MCR and non-compliance with the SCR	62
E.6. Any other information	62
<i>Appendix 1: Quantitative Reporting Templates</i>	63
Appendix 1.1: S.02.01.02 - Balance sheet	64
Appendix 1.2: S.05.01.02 - Premiums, claims and expenses by line of business	66
Appendix 1.3: S.05.02.01 - Premiums, claims and expenses by country	67
Appendix 1.4: S.17.01.02 - Non-life Technical Provisions	68
Appendix 1.5: S.19.01.21 - Non-life insurance claims	69
Appendix 1.6: S.23.01.01 – Own funds	71
Appendix 1.7: S.25.01.21 - SCR - for undertakings on Standard Formula	74
Appendix 1.8: S.28.01.01 - MCR — Only life/non-life insurance/reinsurance activity	75
<i>Appendix 2: Glossary of abbreviations and terms</i>	76

Summary

Solvency II (“SII”) is an EU legislative programme that was effective from 1 January 2016, and is applicable to DAS Legal Expenses Insurance Company Limited (“DAS LEI”).

The main objective of SII is 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 introduces features to improve a firm’s understanding and management of its risks, which should result in improved resilience to shocks. The objectives of SII will be achieved through regulatory supervision, and includes public disclosure requirements. The public disclosure requirements are in the form of this document, the Solvency and Financial Condition Report (“SFCR”).

As with prior year, 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 2019 and is summarised below.

Other than the changes noted below, there were no material changes in the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management during 2019.

In June 2016, the UK voted to relinquish its membership of the European Union (“EU”). At the time this SFCR was signed, the UK had left the EU but had entered into a transitional period. This period is due to end on 31 December 2020, during which the UK and EU will negotiate their future relationship. During this transition period the UK remains subject to EU law and remains part of the EU customs union and single market, but is no longer part of the EU’s political bodies or institutions. There remains a great deal of uncertainty over the level of interaction the UK would have with the EU market after the transitional period ends.

DAS LEI operates predominantly in the UK market, but currently has a limited amount of business in both Norway and the Republic of Ireland. The Norwegian operation, which is conducted on a freedom of service basis, ceased writing new business in April 2019 and is expected to have fully run off by approximately 2024. The Irish branch’s business was sold to ARAG Allgemeine Versicherungs AG (“ARAG”) on 1 December 2019.

DAS LEI decided to sell its Irish Branch’s business. DAS LEI was successful in finding a buyer, and on 27 February 2019 it was announced that ARAG intended to buy the Irish Branch’s business. An initial transfer, which excluded the transfer of the non-actuarial liabilities that were then fully reinsured with ARAG, was completed on 1 December 2019. The actuarial liabilities will be transferred on completion of a Part VII transfer under the Financial Services and Markets Act 2000. The sale allows the DAS LEI to focus on continuing to improve outcomes for its customers and business partners in the UK Market including Northern Ireland.

Whilst the implications of Brexit are unknown, DAS LEI’s Brexit risk analysis has benefited from access to ERGO and Munich Re expertise, as part of a dedicated “Brexit Task Force”. DAS LEI has independently considered a number of further scenarios relating to the potential impact of Brexit on employment law, Defined Benefit Pension Schemes, SII regulation, and the market in which DAS LEI operates (including the potential impact of increased claim volumes). A suitable contingency plan has been formulated for each scenario considered.

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.

DAS LEI annually renews the terms of its reinsurance quota share with a fellow Munich Re subsidiary ERGO Versicherung AG (“ERGO”). The quota share helps maintain the Solvency Ratio at a level higher than it would without the agreement in place. The relevant changes that impact on current year and prior year results are noted below.

In respect of the 2018 agreement, a flat commission rate of 32% replaced the sliding rate in effect under the previous agreement. This commission is an income to DAS LEI. This had a material adverse impact on the 2018 results due to the accruals concept of accounting, although the increase in the rate actually benefitted DAS LEI in the long term.

In respect of the 2019 agreement, there was an introduction of a profit commission receivable by DAS LEI which also benefitted DAS LEI. This is equal to 65% of the quota share reinsurance result provided that this is a profit to ERGO. No loss share applies should the reinsurance result be unprofitable to ERGO.

In 2019, DAS LEI renewed the terms of its reinsurance quota share agreement with ERGO for 2020. Under the renewed agreement, the 2020 quota share is largely consistent with the 2019 Treaty: The proportion of business ceded under the agreement remains at 90%, the flat rate of commission of 32% of ceded earned premium is retained and so is the 65% profit share.

The total comprehensive profit on a statutory basis for the year was £1,848k (2018: loss of £10,628k).

The 2020 results reflect the business transformation plan. DAS LEI aims to further reduce the loss ratio and improve operational efficiency by rationalising operational expenses and by optimising claims handling expenses going forward. These measures, together with broader market penetration and new propositions, will enable DAS LEI to retain its position as the UK’s leading LEI provider.

There were some one offs in DAS LEI’s results for both years which included the one off hit to prior year of approximately £10m as a result of the change in the ERGO quota share commission rate.

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.

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”.

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 £35,530k compared with £29,762k 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. DAS LEI's ratio improved in 2019 to 181% (2018: 170%). The improvement was largely due the underlying profit in DAS LEI's statutory financial statements. Section E sets out the capital DAS LEI holds ("Own funds") and the excess of capital above the amount that it should hold as required 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 2019

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 2020 and signed on its behalf by:

Director

A J Burke

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 head office and the registered office are 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, but currently has a limited amount of business in both Norway and the Republic of Ireland. The Norwegian operation, which is conducted on a freedom of service basis, ceased writing new business in April 2019 and is expected to have fully run off by approximately 2024. The Irish branch's business was sold to ARAG Allgemeine Versicherungs AG ("ARAG") on 1 December 2019.

In 2018, DAS LEI decided to sell its Irish Branch's business. DAS LEI was successful in finding a buyer, and on 27 February 2019 it was announced that ARAG intended to buy the Irish Branch's business.

The deal, which was subject to regulatory approval, was constructed in two stages: There was an initial transfer stage, which was completed on 1 December 2019, and the final stage will be the completion of a Part VII transfer under the Financial Services and Markets Act 2000. This is expected to take place in 2020.

On 1 December the Irish Branch stopped writing business except for where the business partners had not yet agreed to novate to ARAG, or where there were renewals sent out to the business partners prior to 1 December and these were subsequently renewed with DAS LEI. On 1 December a 100% quota share reinsurance arrangement was then entered in to with ARAG. This covered the policyholder of DAS LEI as at 1 December, but also covered this business written post 1 December

The sale allows DAS LEI to focus on continuing to improve outcomes for its customers and business partners in the UK Market including Northern Ireland.

DAS LEI has made robust preparations to guard against the risks associated with Brexit. Appropriate measures have been taken to ensure that DAS LEI will be able to maintain its ability to provide services to its policyholders in the Republic of Ireland, and DAS LEI has also taken the decision to cease writing new business in Norway.

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, 25 The North Colonnade, London E14 5HS.

DAS LEI's external auditor is KPMG LLP, and their contact details are: 66 Queen Square, Bristol, BS1 4BE. KPMG LLP audit DAS LEI's statutory financial statements, the SII data in this document has been reconciled to those financial statements which are audited due to Companies Act requirements.

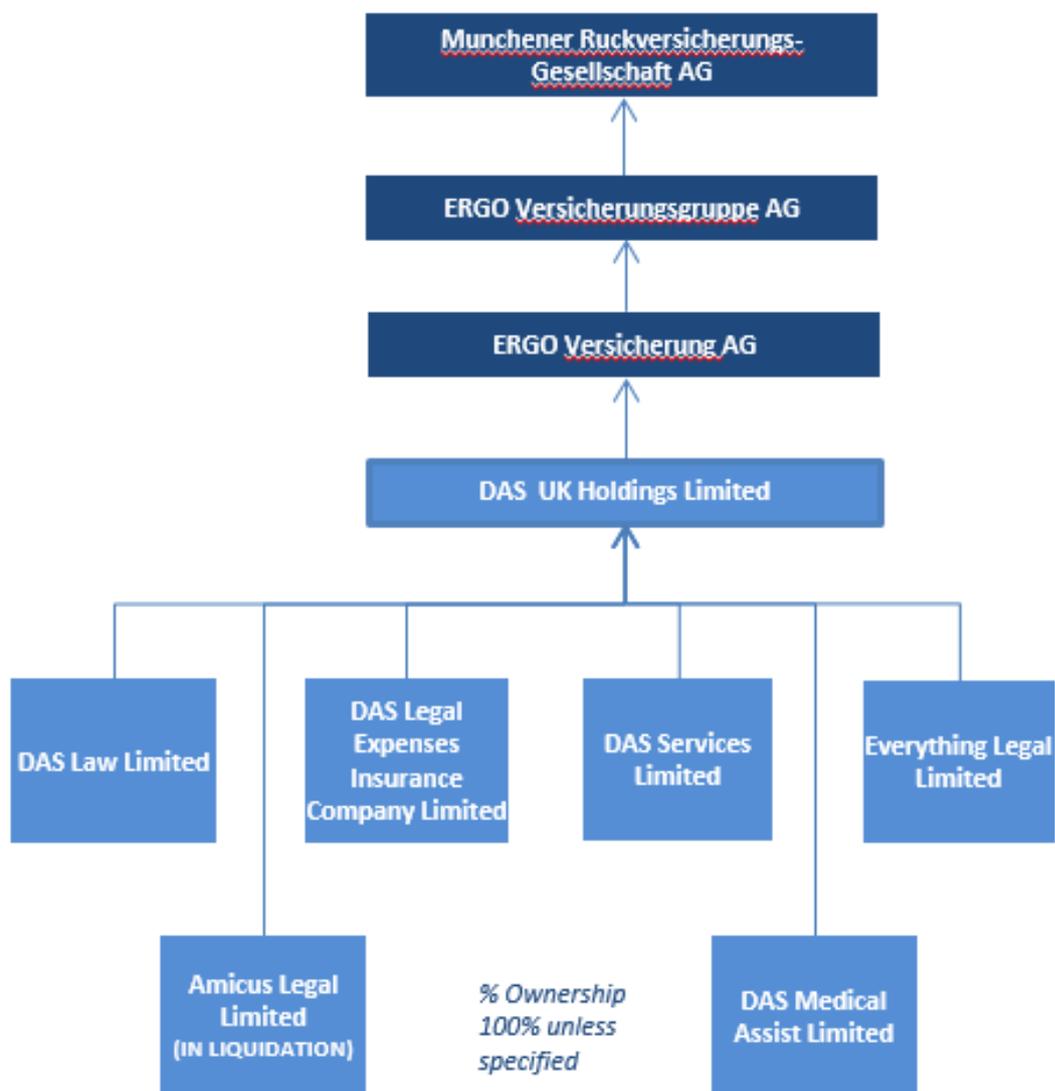
DAS LEI has no related undertakings, investments in joint controlled entities or associates.

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

The 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 following diagram shows the structure of the DAS UK group and where it sits in the wider group:



All DAS UK companies are incorporated in the United Kingdom.

The European group

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

ERGO is a wholly-owned subsidiary of ERGO Versicherungsgruppe 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 and Asia.

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	2019	2018
Legal expenses insurance	2,011	7,812
Assistance	503	(193)
Miscellaneous financial loss	(329)	(1,154)
Total underwriting profit	2,184	6,465

The underwriting result (gross of reinsurance) by material geographical area is shown below:

All amounts in £’000s	2019	2018
United Kingdom	2,134	6,638
Republic of Ireland	984	(188)
Norway	(934)	15
Total underwriting profit	2,184	6,465

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.

In 2019 there were several large losses that impacted on the underwriting result. Although these were largely offset by recoveries from the ERGO quota share and other reinsurance contracts, see section A.4. These reinsurance agreements mitigate future losses and create a more stable profit.

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 following table analyses the investment result for the year:

All amounts in £'000s	2019	2018
Income from Government Bonds	746	867
Income from Corporate Bonds	344	420
Income from Structured notes	(2)	19
Income from cash balances	22	14
Gains on the realisation of Government Bonds	10	24
Gains on the realisation of Corporate Bonds	12	9
Investment management expenses	(174)	(138)
Total Investment return	958	1,215

DAS LEI's investment portfolio is managed by Munich ERGO Asset-Management GmbH ("MEAG") which is based in Munich, Germany and is a subsidiary of Munich Re, the ultimate parent company of DAS LEI.

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 2019 was broadly in line with the prior year. The investment return for 2019 is considered to be consistent with market performance.

Gains and losses recognised in Equity

In addition to the items above, there were gains on re-measurement of available-for-sale financial assets £664k (2018: losses of £705k). These relate to unrealised gains and losses on bonds and the difference compared to prior year reflects market movements on bonds and the turnover of the bonds owned by DAS LEI.

Investments in Securitisation

The undertaking 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 profit/(loss) 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	2019 £'000	2018 £'000	Comments
Gross underwriting performance	2,184	6465	See A.2 section
Investment performance	958	1,215	See A.3 section
Gains /(Losses) on re-measurement of available-for-sale financial assets	664	(705)	See A.3 section
Performance of other activities			
Other income per Non-technical account	3,847	107	This includes a recovery of £3,733k (2018: £nil) where DAS LEI was involved in a private criminal prosecution against a former CEO. Other than that, this is mainly comprised of interest income on Group loans.
Other expenses per Non-technical account	(162)	15	This comprises foreign currency (losses)/ gains and is not material
Gain on sale of discontinued operations, net of tax	903	-	This is the profit, net of tax, on the sale of the Irish Branch.
Tax on profit/loss on ordinary activities per Non-technical account	(234)	2,085	This is the tax on the items disclosed in the Profit and Loss Account in the financial statements (with the exception of the tax on the above item). The movement in this figure largely relates to the change in the total comprehensive profit/(loss) for the year below.
Foreign currency translation differences on foreign operations, net of tax	(388)	31	This is recognised in the Statement of Comprehensive Income and is not material
Items included in the Technical account, other than gross underwriting result	(5,924)	(19,841)	This balance includes the reinsurance result which was a loss of £1,048k (2018: £12,058k) 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.
Total comprehensive profit /(loss) for the year	1,848	(10,628)	

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, except those noted below, and it operated satisfactorily, during the reporting period.

During the year, DAS UK undertook an Organisational restructure where one of the aims was to be more externally focussed. Some of the objectives were to:

- grow the business profitability;
- become more customer outcome focused; and
- become more technologically driven;

All objectives were underpinned with a continued and strong focus on delivery of the Plan.

In the restructure the following roles: i) Managing Director of Insurance, ii) Group Director of Underwriting, Claims and Reinsurance and iii) Group Director of Customer Operations and IT were replaced with the following new roles: i) Chief Customer Officer, ii) Director of Client Services and iii) Director of Technology, Data and Strategic Change.

B.1. General information on the system of governance

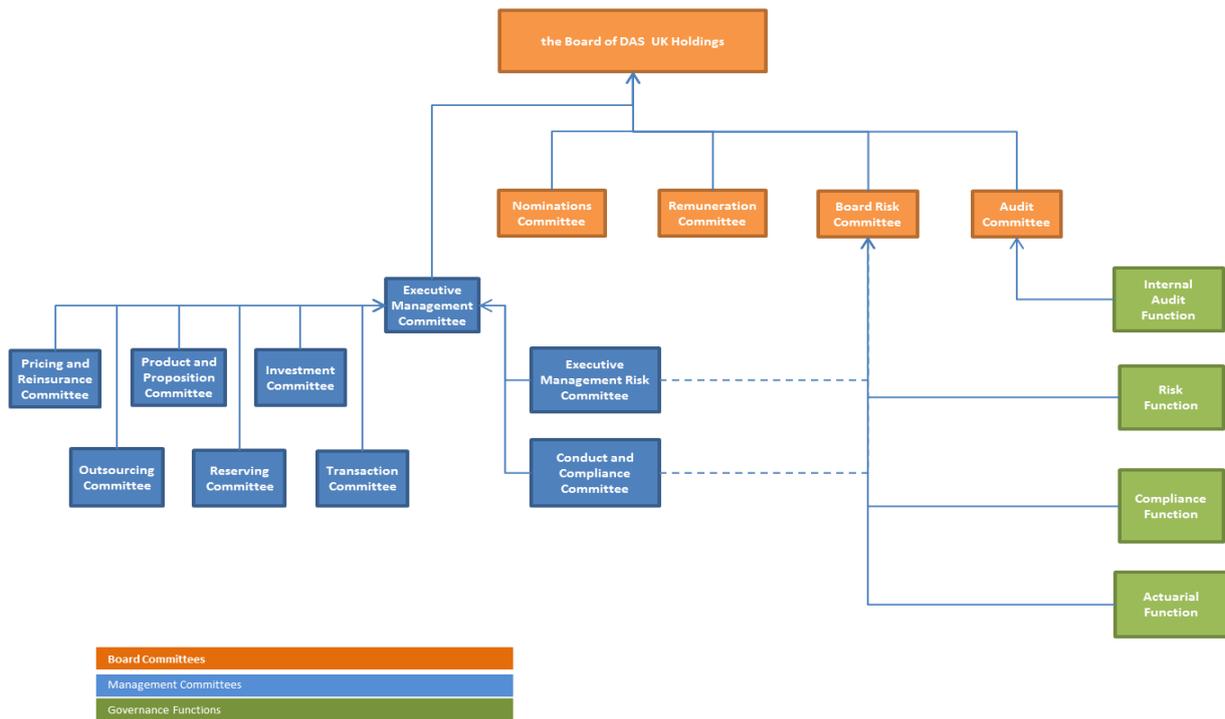
DAS LEI is managed on a unified basis with other companies in DAS UK, including DAS UK Holdings, DAS LEI's immediate parent company.

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 Board or 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 and/or Audit Committee.

The Corporate Governance Structure is outlined in the DAS UK Governance Map on the following page:



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. All members of the Board recognise its duty to DAS LEI. 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 LEI or legal services;
- in respect of corporate transactions, property interest or investments;
- 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 and recommendation of changes to standard book rates.

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 Risk Committee

The Executive Management Risk Committee is responsible for:

- the implementation of DAS UK's risk management strategy from a first line of defence perspective, including monitoring and escalation of risk appetite and any breaches;
- the 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;
- the 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; and
- ensuring it maintains a robust succession plan that recognises current and future business needs and requirements, and addresses the unexpected loss of key individuals.

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

For the roles described in this section, details of the allocation of key functions in accordance with the FCA Handbook and the PRA Rulebook can be found in B.2 below.

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 carry out 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. He is accountable for the strategic direction and quality of all financial matters, including financial planning and analysis, reporting and tax, accounting, reserving and pricing.

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.

6. Director of Client Services

The Director of Client Services is responsible for:

- developing and delivering the Insurance business strategy;
- 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, project management and change management.

8. Group Director of Human Resources and Legal Services

The Group Director of Human Resources and Legal Services has ultimate accountability for all people based activity from both an operational and strategic perspective. They are 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 are accountable for Facilities, Legal Services, Internal Communications, and Corporate Social Responsibility.

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, BCM, conduct risk, data protection, financial crime, information security, 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 the effective design and implementation of DAS LEI's Conduct Risk Management Framework across DAS UK and to advise, support, review and challenge 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) appropriate Approved Persons, Fit and Proper, and Senior Managers and Certification Regime ("SMCR") processes; and
- 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.

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.

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 Non-Executive Directors is also determined by the Remuneration Committee and is reviewed at least every three years. Independent Non-Executive Directors ("INEDs") are not entitled to performance-related remuneration.

For the members of the EMC who are non-board members, the at-target award is set at 40% of base pay and for direct reports to the EMC members the typical at-target award is set at 15%.

Variable pay in the form of annual bonuses is also provided to specific Client Service based roles at DAS UK (whilst quarterly incentives are paid to fee earners in DAS Law Limited ("DAS Law").

Remuneration for all employees is managed according to an annual budgeted pay process as agreed in advance with ERGO. 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 the employee's overall performance rating from the previous year. Pay levels are benchmarked annually using Towers Watson. In addition, employee benefits are provided including market-aligned insured 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 Solvency II requirements. All 3 incumbents have an annual and medium-term incentive opportunity. The medium term opportunity is awarded annually and is paid after 3 years subject to strict performance criteria which are set by ERGO. The remuneration paid to Non-Executive Directors 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 award of 40% is payable on satisfactory achievement of all objectives. For direct reports to the EMC members (typically those holding “Head of” positions) a management incentive plan with an at-target award of 15% of annual base salary is in operation. For Control Function roles no financial targets are applied, only personal and the at-target is 10%. 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 retention 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 fellow group company 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 2019.

B.2. Fit and proper requirements

DAS UK has a “Fit and Proper” policy in place which is reviewed annually. All Senior Management Function (“SMF”) holders, which includes all members of the Board as well as certified staff, are subject to the fitness and propriety assessment by the DAS UK. In addition, DAS UK also undertakes an annual Fitness and Propriety attestation which all in scope staff are required to complete, and completes criminal bureau checks on an annual basis for all SMF holders. All SMF holder responsibilities are outlined within role profiles and annual objectives and are subject to a rigorous governance framework. Other than the Board, DAS UK has four key Functions within the operation as follows:

DAS Key Functions	PRA/FCA SMF
Risk Management function	SMF4
Actuarial function	SMF20
Internal Audit function	SMF5
Compliance function	SMF16

On 7 March 2016, the revised Senior Insurance Managers Regime (“SIMR”) came into force replacing the previous Statements of Principle and Code of Practice for Approved Persons (“APER”) process. The changes seek to ensure individual accountability for key roles within Financial Services both in general insurance and retail banking.

On 10 December 2018, the SIMR regime merged with the Insurance Senior Managers and Certification Regime (“SMCR”). Existing roles were migrated to the revised framework in accordance with the requirements set out by the FCA and PRA. All Approved Persons are subject to the new application requirements; and minimum standards specific to the role which they hold.

On 9 December 2019, the SMCR formally came into force. A formal project ran throughout 2019 to ensure that DAS LEI have appropriate systems, controls, processes and procedures to meet the requirements of the new regime.

The revised regime is based on a series of responsibility allocations, which are set out in the table on the following page:

- PRA/FCA Senior Management Function (“SMF”) role;
- PRA Prescribed Responsibilities;
- Key Functions and Key Function Holders; and
- Certification Functions.

SMF functions	Description of controlled function	DAS role	SMF responsibility
SMF 1	CEO	Chief Executive Officer	"The function of having responsibility, under the immediate authority of the governing body, alone or jointly with others, for carrying out the management of the conduct of the whole of the business (or relevant activities) of a firm".
SMF 2	CFO	Chief Finance Officer	"The function of having responsibility for the management of the financial resources of a firm and reporting to the governing body of a firm in relation to its financial affairs".
SMF 3	Executive Director	Group Director of HR and Legal Services	Executive Director.
SMF 3	Executive Director	Chief Customer Officer	Executive Director.
SMF 18	Other Overall Responsibility	Director of Client Services	The function applied for if the person does not have approval to perform any other designated senior management function in relation to the firm.
SMF 4	Chief Risk Officer	Chief Risk and Compliance Officer	"The function of having responsibility for overall management of the risk management system specified in Conditions Governing Business 3" (of the PRA Rulebook).
SMF 5	Head of IA	Head of Internal Audit	"The function of having responsibility for management of the internal audit function specified in Conditions Governing Business 5" (of the PRA Rulebook).
SMF 9	Chair	Chairman of the Board	"The function of having responsibility for chairing, and overseeing the performance of the role of, the governing body of a firm".
SMF 10	Chair - Risk C'ttee	Independent Non-Exec Director	The function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the risk management system specified in Conditions Governing Business 3" (of the PRA Rulebook).
SMF 11	Chair - Audit C'ttee	Non-Exec Director	"The function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the internal audit system specified in Conditions Governing Business 5" (of the PRA Rulebook).
SMF 12	Chair - Remuneration C'ttee	Independent Non-Exec Director	"The function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the design or implementation of the remuneration policy of a firm".
SMF 16	Compliance Oversight	Chief Risk and Compliance Officer	The function responsible for compliance and reporting to the governing body.
SMF 20	Chief Actuary	Chief Actuary	"The function of having responsibility for the actuarial function specified in Conditions Governing Business 6" (of the PRA Rulebook).
SMF 23	Chief Underwriting Officer	Head of Underwriting	"The function of having responsibility for the underwriting decisions in respect of material insurance risks that, in relation to managing agents, are borne by members".
SMF 24	Chief Operations	Director of Technology, Data and Strategic Change	"The function of having responsibility for the internal operations and technology of a firm".

Prescribed Responsibilities

The following Prescribed responsibilities have been allocated as part of the migration to SMCR to the following incumbents and form part of the individual's role profiles and responsibilities. DAS UK has assigned the revised listing to applicable senior managers as detailed below.

Ref	Prescribed Responsibilities	SMF Function	DAS Role
A	Senior Management Regime	SMF16 / SMF4	Chief Risk and Compliance Officer
B	Employee Certification Regime	SMF3	Group Director of HR and Legal Services
C	Responsibilities Map	SMF3	Group Director of HR and Legal Services
F	Induction training and professional development of all members of the firm's governing body	SMF9	Chair of the Board
G	Induction training and professional development of all members performing designated senior management functions on behalf of the firm other than the members of the governing body and Key Function Holders	SMF3	Group Director of HR and Legal Services
N	Whistleblowing	SMF9	Chair of the Board/ Chair of the Audit Committee and Whistleblowing Champion
B-1	Responsibility for the firm's performance of its obligations under the Conduct (COCON) (in terms of training and regulatory reporting)	SMF3	Group Director of HR and Legal Services
D	For the firm's policies and procedures for countering the risk that the firm's may be used to further financial crime	SMF 16/4	Chief Risk and Compliance Officer
Z	Compliance with CASS	SMF2	Chief Financial Officer
H	Overseeing the adoption of the firm's culture	SMF1	Chief Executive Officer
I	Leading the development of the firm's culture by the governing body as a whole	SMF9	Chair of the Board
M-1	Remunerations policies and practices	SMF3	Group Director of HR and Legal Services
O	Management of the allocation and maintenance of the firms' capital and liquidity	SMF2	Chief Financial Officer
Q	Productions and integrity of the Firm's financials and its regulatory reporting	SMF2	Chief Financial Officer
T	Development and maintenance of the firm's business model by the governing body	SMF1	Chief Executive Officer
T-2	Performance of the firms' own risk and solvency assessment (ORSA)	SMF4 / SMF16	Chief Risk and Compliance Officer
U	Insurance Fitness and Propriety	SMF3	Group Director of HR and Legal Services
X	Outsourced operational functions including systems and technology	SMF24	Director of Technology, Data and Strategic Change

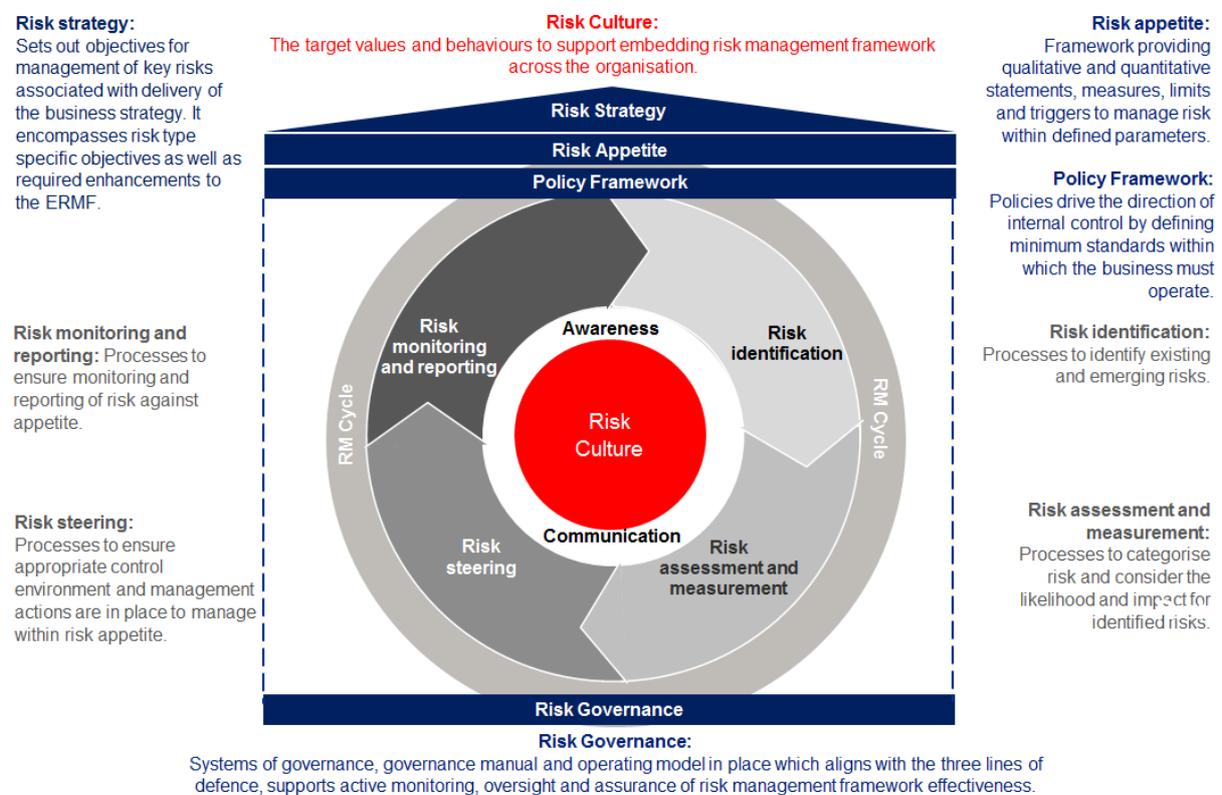
B.3. Risk management system including the own risk and solvency assessment

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 also an Approved Person (SMF4 and SMF16) under the FCA/PRA rules. See “Key Functions” section in B.1 for further information on the responsibilities of the Chief Risk and Compliance Officer.

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. 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 Risk Committee – Implementation of the group’s risk management strategy from a first line of defence perspective including implementation of DAS UK’s information security and business continuity management frameworks. See “Management Committees” section in B.1 for further information on the responsibilities of the Executive Management 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 has 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, all risk categories have 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 compliance with risk 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 the 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 in performing their monitoring tasks and is responsible for checking the internal governance system, including the three other control functions (compliance, risk management and actuarial).

Organisation

The Internal Audit function is an independent function. It operates within the framework of the Internal Audit standards applicable throughout the Munich Re Group. It is legally assigned to DAS UK Holdings Limited. The Head of DAS UK Internal Audit has a functional reporting line to the Chairman of the Audit Committee of DAS UK and the Munich Re Head of UK Audit Hub. The audit mandate of Internal Audit covers all units of DAS UK Holdings Limited and its subsidiaries, including DAS LEI.

Core tasks of Internal Audit

Internal Audit is mandated to:

- establish, implement and maintain an audit plan;
- perform audit engagements, investigations, consulting activities, and other related tasks according to the audit plan;
- apply a risk-based approach in order to prioritise audit activities;
- submit written reports on findings and recommended measures to the Audit Committee, and other senior and executive managers having a legitimate interest in the report; or
- follow-up on audit action implementation and report on the effectiveness of this process.

Independence and Objectivity

DAS UK Internal Audit does not have responsibilities for or perform non-audit activities, such as business operations of other units of DAS UK. Internal Audit can provide consulting work, for example within projects or project-accompanying audits, and advise other units concerning the implementation or alteration of controls and monitoring processes. The prerequisite is that this does not lead to conflicts of interest so that the independence of Internal Audit is ensured. When assigning the auditors, attention is paid to the fact that there are no conflicts of interest and that the auditors can perform their duties impartially.

During the reported period the independence and objectivity of the Internal Audit department was not impaired.

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.

All 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

Outsourcing is defined as: “Any third-party arrangement, including delegated authorities, where DAS UK would otherwise need to employ appropriate personnel in-house.”

DAS UK differentiates between outsourcing arrangements based on risk; categorising each arrangement as follows:

- Category 3: Critical Risk
- Category 2: High Risk
- Category 1: Medium Risk
- Category 0: Low Risk

The PRA Rulebook defines “material outsourcing” as “outsourcing services of such importance that weakness, or failure, of the services would cast serious doubt upon the firm’s continuing satisfaction of the threshold conditions or compliance with the Fundamental Rules”.

SII regulations define “critical or important outsourcing” as “the key functions of an undertaking’s system of governance and all functions within the undertaking that are fundamental to carry out its core business”.

For the purposes of this document and the supporting outsourcing framework, “material” and “critical and important” are deemed to be interchangeable and refer to those arrangements where the outsourced function or activity is fundamental to the operation of DAS LEI such that without it they would be unable to deliver its services to policyholders.

The critical functions outsourced by DAS LEI, which are primarily registered companies in the UK and Ireland, are:

- **Distribution:** DAS LEI policies are distributed to policyholders by a large network of business partners, often as “add-ons” to other policies, in line with DAS LEI’s business model. This provides access to a far larger market than an in-house distribution function would allow.
- **Legal services:** Legal services are provided to DAS LEI policyholders both by DAS Law Limited (part of the DAS UK Group and by external law firms to provide policyholders with the broadest possible choice of law firms.

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.

SII regulations and the PRA Rulebook identify four “key functions” in an insurer, which are by default classed as critical, important or material:

- Risk Management;
- Compliance;
- Actuarial; and
- Internal Audit.

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 Category 3 (Critical) and Category 2 (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.

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.

At time of writing, the UK as a whole is managing its response to the current Global crisis surrounding the pandemic associated with COVID-19, an illness caused by the novel coronavirus. There is currently a great deal of uncertainty regarding how this will impact the Company and the wider economy. The Company will be affected directly by the impact of the virus and government measures taken to contain it on those who undertake work for the Company and other stakeholders, including suppliers, business partners and policyholders. The Company could also be indirectly impacted by possible second-order effects of the virus, including downturns in the economy and investment markets and potential impacts on the judicial system.

It is important to recognise that COVID-19 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;
- Reduction in investment returns

The Company'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 the Company's solvency and liquidity positions remain adequate and appropriate.

Ongoing monitoring and analysis of the event and its consequences will be maintained through the incident response structure that has been put in place.

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 an "open" underwriting risk appetite in both Before the Event ("BTE") and After the Event ("ATE") business. Under DAS UK's Risk Appetite Terminology, having an "open" appetite means that DAS LEI is "willing to consider all potential options and choose the one most likely to result in successful delivery, whilst also providing an acceptable level of reward and value for money". This approach 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”)

DAS LEI has an “open” appetite to ensure that 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, expected to increase premiums resulting from changes to the Small Claims Court limit and other impacts associated with claim handling.

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 UK economy returning to recession, 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 a “No Deal” Brexit.

Personal Non-Motor (Class 300)

Family legal 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 UK economy returning to recession, 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 a “No Deal” Brexit.

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, and
- There are a limited number of nationwide home emergency suppliers capable of servicing DAS LEI's customer base.

After the Event (“ATE”)

DAS LEI has an “open” appetite, in line with the appetite in the BTE book. However, the ATE book is currently a low-volume and volatile business. The “open” risk appetite will be managed whilst taking risk reduction steps to address this volatility.

Motor and Non-Motor Personal Injury (Class 600)

Provides cover to claimants for litigation costs in respect of a motor accident resulting in their death/personal injury.

Risks:

- Since the introduction of LASPO, demand and need for ATE insurance is lower reducing the spread of risk. The Civil Liabilities Bill, with an increase to the small claims limit, will add to the contraction, and
- Cases involving minors require the Court's approval before damages can be agreed and any liabilities can be paid (ATE premium and conditional fee arrangements success fee). We are seeing an emerging trend where Courts refuse to grant the release of the ATE premium.

Civil Litigation (Class 700)

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

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:

- Adverse judgment and protracted legal challenges in relation to the element of the premium that is still recoverable from the opponent in successful cases, 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 a fellow Munich Re subsidiary ERGO Versicherung AG ("ERGO"). The quota share helps maintain the Solvency Ratio at a level higher than it would without the agreement in place. The relevant changes that impact on current year and prior year results are noted below.

In respect of the 2018 agreement, a flat commission rate of 32% replaced the sliding rate in effect under the previous agreement. This commission is an income to DAS LEI. This had a material adverse impact on the 2018 results due to the accruals concept of accounting, although the increase in the rate actually benefitted DAS LEI in the long term.

In respect of the 2019 agreement, there was an introduction of a profit commission receivable by DAS LEI which also benefitted DAS LEI. This is equal to 65% of the quota share reinsurance result provided that this is a profit to ERGO. No loss share applies should the reinsurance result be unprofitable to ERGO.

In 2019, DAS LEI renewed the terms of its reinsurance quota share agreement with ERGO for 2020. Under the renewed agreement, the 2020 quota share is largely consistent with the 2019 Treaty: The proportion of business ceded under the agreement remains at 90%, the flat rate of commission of 32% of ceded earned premium is retained and so is the 65% profit share.

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 2019 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. The material counterparties remaining are London Market reinsurers. 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.

Quota share arrangements with Protected Cell Company schemes

DAS LEI have arrangements 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. All of the arrangements with Fiablé and Avantage. Note that in 2018, all of these arrangements were given notice and all are in run-off from Q2 2019 in consideration to the proportion of the risk ceded under the ERGO quota share.

Quota share arrangements 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 is ceded to ARAG Allgemeine Versicherungs AG. The reinsurance treaty will remain in place until the Part VII transfer is approved and completed, or when the business runs-off.

Quota share arrangements 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.

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. Key components of market risk include interest rate risk, spread risk, concentration risk and currency risk, each of which is discussed in further detail below.

There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period.

DAS LEI has adopted a “cautious” appetite for Market Risk, such that it has a “preference for safe options that have a low degree of risk and may only have limited potential for reward”. This is considered appropriate primarily to safeguard DAS LEI’s robust capital position without unduly limiting its access to returns on investment assets.

Consistent with its “cautious” market risk appetite and ERGO/Munich Re investment guidelines, DAS LEI has adopted a conservative investment strategy.

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 for below DAS LEI manage these risks.

The market risk profile for DAS LEI has changed very little year-on-year and reflects DAS UK’s “cautious” market risk appetite, investing mainly in high-rated government and corporate bonds. DAS LEI’s market risk policy was reviewed and updated in 2018 to promote the maintenance of a robust approach to the mitigation of market risk going forward in line with appetite.

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 rate 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.

Currency risk

DAS LEI defines currency risk as the sensitivity of the values of assets and liabilities to changes in the level or in the volatility of currency exchange rates.

DAS LEI underwrites business in the United Kingdom, the Republic of Ireland and in Norway. Both Ireland and Norway business are in run-off, and the Ireland business is 100% reinsured. DAS LEI operates predominantly in the UK market, but currently has a limited amount of business in both Norway and the Republic of Ireland. The Norwegian operation, which is conducted on a freedom of service basis, ceased writing new business in April 2019 and is expected to have fully run off by approximately 2024. The Irish branch's business was sold to ARAG on 1 December 2019. Euro-denominated assets were held at 31 December 2019, as this was only a short time after the sale of the Ireland business, and a contingency amount was also held against the possible need to establish a third country branch in Ireland. This may no longer be required as the Part VII transfer of the Irish business may be completed by the time that the Brexit transitional period ends.

DAS LEI therefore incurs exposure to currency risk from its operations: i.e. from underwriting premiums and paying claims or other expenses in currencies other than GBP (i.e. in Euros in the Republic of Ireland and Norwegian Krone in Norway). If the value of the British Pound strengthens then the value of non-Sterling assets will decline when translated into Sterling.

Mitigation

DAS LEI's investment management approach is fully aligned with its “cautious” 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 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 decision considers liquidity, diversification and above all the structure of the insurance liabilities. DAS LEI has adopted a conservative investment strategy with an agreed "cautious" risk appetite for market risk. 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 key objective is to limit investment risk and volatility whilst achieving a reasonable return given the investment climate. This conservative investment strategy is expressed and implemented by means of the Investment Mandate ("Mandate"), which is the agreement with the Investment Manager that sets out investment guidelines and parameters.

The DAS LEI investment portfolio is managed by Munich ERGO Asset-Management GMBH ("MEAG"), DAS UK's appointed Investment Manager. The Mandate, which is reviewed annually, forms part of the investment management contract between DAS UK and MEAG. 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. MEAG 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, as detailed below.

The terms of the 2019 year end Mandate are summarised as follows:

- Approximately 75% to be invested in UK Government bonds, the majority with maturity of up to three years;
- Approximately 20% to be invested in Corporate bonds with maturity up to three years;
- Approximately 3.5% to be invested in Euro bonds and 1.5% in Norwegian Government bonds;
- Other than deposits, no other investments are permitted; and
- The minimum rating allowed for single investments is BB3 (MEAG Rating); and non-investment grade assets are limited to 5% of total fixed income assets.

The Mandate is subject to approval by the Chief Executive Officer and Investment Officer of DAS UK. 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 before the Mandate is finalised.

Investment Management Governance

An Investment Committee, which acts on authority delegated by the Executive Management Committee and takes place quarterly, is an interdisciplinary body that aims to secure a comprehensive view on investments such that the investment target is achieved with due consideration to the impact on other aspects of the business. The Investment Committee provides active "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." The Investment Committee comprises DAS UK's Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Actuary and the Investment Manager (MEAG).

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 MEAG 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 the firm. In addition, as required by the SII directive, DAS LEI's investments are made with reference to the "Prudent Person Principle".

Exposure to interest rate is monitored through several measures factored into the investment mandate, which include the following as at 31 December 2019:

- Target portfolio modified duration of 2.00;
- Minimum rating allowed for investment (currently Standard and Poor's BB- or equivalent) and a limit of total exposure to investments with a Standard & Poor's rating of BBB+ or lower of 15% of the portfolio;
- Issuer limit for corporate bonds of 5% of portfolio.

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

87% (2018: 96%) 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 is higher than normal at 13% (2018: 4.7%) mainly due to the recent sale of the Irish Branch's business.

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 to 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. In line with ERGO investment guidelines and DAS LEI's own conservative investment strategy, 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.

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 a “minimal” appetite for Credit Risk in 2019, such that it had a “preference for ultra-safe options that are low-risk and only have a minimal potential for reward”. The aim 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)

DAS LEI is engaged in the following material reinsurance arrangements:

- A quota share arrangement with ERGO Versicherung AG (“ERGO”) under which 90% of all business net of other reinsurance ceded;
- A 100% quota share arrangement with ARAG Allgemeine Versicherungs AG (“ARAG”). This was entered into as a result of the sale of the Irish branch’s business, and it is expected to remain in place until the Part VII transfer is approved and completed, or when the business runs-off;
- A 50% quota share arrangement with Inter Hannover plc (HDI Global Speciality SE), affecting Class 700 business (this terminated 31 December 2015 and is now running off);
- An excess of loss arrangement with a panel of different reinsurers relating to Class 200 business with high limits of indemnity. This terminated 31 December 2017 and is now in run-off. The counterparties remaining are London Market reinsurers;
- 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 were in run-off.
- 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 and expenses are not ceded.

The total reinsurers’ share of technical provisions at 31 December 2019 was £115,161k (2018: £117,174k). The substantial majority of these balances relate to the 90% quota share contract with ERGO, £112,100k which has a Standard and Poor’s (“S&P”) credit rating of AA-.

Investments in 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 only be deposited with banks and other deposit-takers approved by the Board. The criteria governing deposits with banks and other deposit-takers are set out in the DAS UK Liquidity Risk Policy. A weekly summary of funds held on deposit is produced by the Finance Department and includes the current credit rating of each bank used.

Insurance debtors

Primary responsibility for monitoring premium income levels and recording policy sales for premium income rests with the Underwriting Department. Responsibility for credit control of BTE and other business partner income lies principally with the Cash Management team. Responsibility for the credit control for ATE debtors lies within the ATE department. The Cash Management team works closely with colleagues in the Underwriting and Sales Departments to pursue outstanding insurance debts. Detailed aged analyses of debts are maintained for categories of insurance-related debts. Any significant anomalies or movements in the age profile are identified and investigated.

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 an “averse” risk appetite for failing to meet any policyholder or other financial obligation as they fall due, such that “avoidance of risk and uncertainty is a key organisational objective”. Mitigation strategies are in place which seeks 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. 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 Liquidity Risk profile over the year.

All of the DAS LEI’s treasury positions are in immediate call accounts and highly liquid securities which are always greatly in excess of the liabilities falling due in the short term.

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 cash flows can be volatile in the very short term due to the number of un-presented cheques in circulation at any time. 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 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-term spikes in demand for cash.

Liquidity is monitored against DAS LEI’s risk appetite on a daily basis. Operational cash holdings are fully within liquidity appetite so long as they are in excess of £3m in aggregate.

The portfolio is managed by ERGO Versicherung AG in accordance with the investment mandate approved by DAS LEI. Investments are held by MEAG, Munich Re Group’s special purpose asset management company. Transactions are carried out by HSBC Bank plc (“HSBC”). DAS UK coordinates with MEAG and HSBC to maintain returns while ensuring sufficient cash availability. MEAG could create short-term liabilities by entering into contracts to purchase investments. However, the authorisation of transactions is carried out and controlled by the senior personnel of the DAS UK Finance team. In practice, there is close liaison between MEAG and DAS UK’s Finance function and no significant

difficulties have arisen in recent years in having funds available to meet investment purchase obligations. Liquidations of assets are made when necessary, to manage the liquidity.

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 2019 is £19,949k (gross of reinsurance) (2018: £19,725k).

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.

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 Operational Risk profile over the year.

DAS LEI has a “minimal” appetite for operational risk such that it has a “preference for ultra-safe options that are low risk and only have a limited potential for reward”. 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. Consequently, DAS LEI operates mitigation strategies which seek to minimise the exposure to operational risk whilst taking a proportionate account of costs of control. Four individual risk appetite statements and associated KRIs have been set as subsets of Operational Risk, namely: IT, Process, Outsourcing, Data Management, People, and Legal. DAS LEI remained within appetite across these sub-categories throughout the period.

The DAS UK Operational Risk Policy sets the framework and expectations of the Board for the effective management of the risks arising from DAS UK’s management of people, process and systems. This utilises the ERMF.

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 most material operational risks for DAS UK are summarised below:

People

Risks that may have an impact on DAS UK’s ability to attract, train, and retain talent and/or critical skill sets required by business objectives and the future business model. The vulnerabilities include an ineffective Target Operating Model, under-resourcing, increased attrition, reputational damage and inadequate employee engagement across the business.

Systems

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. 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. There is a common view among senior management and the Board that the IT infrastructure and systems will require some focus and attention over the medium to long term with a planned transition towards the utilisation outsourced cloud based data storage

solutions and a reduction in the reliance on local physical servers. This remains an active area for Risk Management and the risk of data loss features highly on the Key Corporate Risk Register.

Processes

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. In consideration of this, these growing single points of dependencies have been identified. Work is underway to reduce the likelihood of this risk by ensuring employee knowledge is clearly documented in a useful and useable format for future use. Implementation of the ERGO Group’s Internal Control System (“ICS”) across the critical processes within DAS LEI supports the mitigation of this risk.

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 as a key source of uncertainty external perspective; it is difficult to significantly dilute the exposure as larger partners exist in the market place and continue to be a desirable from a growth 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 key partner relationship.

C.6. Other material risks

Regulatory risk

Regulatory risk is defined as the risk that DAS LEI is exposed to fines, censure, legal or enforcement action due to failing to comply with applicable laws, regulations and codes of conduct or legal obligations. There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period unless explained. There has been no significant change in the Regulatory Risk profile 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 managed specifically through the Conduct Risk Framework. The framework also aligns with the Compliance Minimum Standards as set by its Parent – 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 LEI has set a “minimal” risk appetite for the regulatory risk category and has an “averse” risk appetite for material regulatory breaches. DAS LEI recognises that regulatory breaches could occur based on the day to day running of the business, hence the “minimal” risk appetite as opposed to “averse”, but will take all necessary steps to ensure regulatory breaches are remedied with immediate effect. 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 Board 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 d (*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

[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

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 Board Risk Committee
- Ad-hoc decision making from Compliance via oversight and monitoring framework

5. Failure to have sufficient oversight of the distribution chain

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;
- Refined allocation of regulatory responsibilities as part of the firms SMCR application and Organisational redesign, and appropriate approval submissions completed to ensure senior management are aware of their accountabilities; 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 implemented a revised annual planning process to assess DAS LEI's ongoing regulatory exposure, and ensure assurance monitoring and assessment activity is completed. In addition, 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.

Strategic concentration risk

Concentration risk is defined as any single (direct and/or indirect) exposure or group of exposures with potential to produce losses large enough to threaten DAS LEI's solvency or the financial position.

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 Strategic Concentration Risk profile over the year.

DAS UK has a "minimal" appetite for concentration risk, such that it has a "preference for ultra-safe options that are low risk and only have a limited potential for reward". DAS LEI is exposed to a concentration of business with a limited number of business partners who generate significant BTE income. DAS UK recognises the importance of key business partners and understands the impact of the loss of one or more of these key business partners would have on solvency or financial position of insurance undertakings. However, mitigations are in place including but not limited to enhanced focus on retention of key corporate partners and increased activity to diversify product distribution across multiple business partners.

Reputational risk

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

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

DAS UK has a "minimal" 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 below 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
Product and Services	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"> • Customer surveys • Complaints management • Product development process • Product Committee
Innovation	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"> • Transaction Committee • Claims Development
Workplace issues	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"> • Performance management process • Employee Engagement forum
Governance	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"> • Governance Map • SMCR implementation • Board refresh
Citizenship	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"> • Corporate and Social Responsibility Programme
Leadership	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"> • Strategy workshops • Town Halls with CEO
Performance	Issues that will reduce people’s belief that DAS LEI are a profitable company with strong growth prospects.	<ul style="list-style-type: none"> • Shareholder support • Maintained S&P rating
Regulatory	Issues that will reduce the perception of DAS LEI by a regulator in the UK.	<ul style="list-style-type: none"> • Management of Regulatory Relationship

C.7. Any other information

The stress testing and sensitivity analysis for material risks and event 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 on the financial position of DAS LEI. These have been determined following 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 2019 of 197%. The year-end position was lower at 181%, due to the eligible own funds being lower than planned and the SCR being higher than planned, caused by the timing of expected inflows of funds being different from that planned.

The scenarios considered are listed below. For each of the stressed scenarios considered, management has performed an impact and likelihood analysis and considered possible mitigating actions. None of those scenarios would lead to a Solvency II ratio of 190% or lower in the modelled time horizon from 2020 to 2023. The below scenarios reflect changes to the regulations for Q1 2020 onwards.

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

- Stress 1 – Large losses with the ATE book of business
- Stress 2 – Loss of key business
- Stress 3 – Degradation of the IT estate

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

Base position used

Base position	<u>Metric</u>	2020	2021	2022	2023
	Solvency coverage ratio		234%	225%	219%

Stress 1 – Large losses with the ATE book of business

Assumption	Three large existing ATE cases all lose, resulting in additional incurred claims of £9m.				
Modelled Impact	<u>Metric</u>	2020	2021	2022	2023
	Solvency coverage ratio		226%	218%	214%

Stress 2 – Loss of key business

Description	A key business partner, terminates its relationship with DAS UK and planned ATE new business initiatives are not successfully implemented, leading to loss of business partners and future opportunities in ATE.				
Modelled Impact	<u>Metric</u>	2020	2021	2022	2023
	Solvency coverage ratio		236%	225%	213%

Stress 3 – Degradation of the IT estate

Description	A material IT outage results in third party loss, resulting in large costs to cover consultants, legal costs, compensation payments and fines.				
Modelled Impact	<u>Metric</u>	2020	2021	2022	2023
	Solvency coverage ratio		201%	194%	191%

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 following table summarises the key business failure scenarios and definitions identified:

Scenario Description and Impact	Mitigating Actions	Probability Assessment
Loss of support from ERGO arising from: <ul style="list-style-type: none"> • Capital scarcity; • Brexit (UK seen to be less attractive); • Capital rating (outside of tolerance) Resulting in financial and capital strain.	<ul style="list-style-type: none"> • CEO engagement; • Continued (evidenced) delivery of value to the ERGO Group; • Envisage managed withdrawal from the market. 	Low
Arising from “Historic Governance Failings”, the Top 10 Business Partners terminate their relationship with DAS LEI.	<ul style="list-style-type: none"> • The Executive Management teams of DAS LEI and Top 10 Business Partners engage in regular dialogue to ensure a strong relationship at the highest level; • Implementing an improved corporate proposition ensuring the proposition delivers deeper value outside price and product alone. 	Low
Arising from an IT “Cybersecurity” incident which results in a complete breakdown in IT systems, the Top 10 Business Partners terminate their relationship with DAS LEI.	Operating against ISO27001 certified security framework, which includes technical, administrative and physical security controls managed within a recognised risk management framework.	Low
Arising from a significant and high profile data loss incident, the Top 10 Business Partners terminate their relationship with DAS LEI (Reputational risk).	Operating against ISO27001 certified security framework, which includes technical, administrative and physical security controls managed within a recognised risk management framework.	Low

Conclusions

For each of the stress testing and reverse stress testing scenarios considered, management has performed an impact and likelihood analysis and considered possible mitigating actions.

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 2019 Amounts in £'000s	Financial statements	SII	Difference
Assets			
Deferred acquisition costs	6,456	0	6,456
Property, plant & equipment held for own use	362	362	0
Investments (other than assets held for index-linked and unit-linked contracts)	113,645	114,658	(1,013)
Bonds	113,103	114,116	(1,013)
Government Bonds	88,412	89,157	(746)
Corporate Bonds	23,430	23,658	(228)
Structured notes	1,262	1,300	(39)
Collective Investments Undertakings	542	542	0
Reinsurance recoverables from:	207,927	115,161	92,766
Non-life excluding health	207,927	115,161	92,766
Insurance and intermediaries receivables	126,578	36,776	89,803
Reinsurance receivables	2,029	2,056	(27)
Receivables (trade, not insurance)	12,433	11,427	1,006
Cash and cash equivalents	17,207	17,207	0
Any other assets, not elsewhere shown	1,058	55	1,003
TOTAL ASSETS	487,696	297,702	189,995
Liabilities			
Technical provisions – non-life	234,998	123,100	111,898
Technical provisions – non-life (excluding health)	234,998	123,100	111,898
Best Estimate	n/a	118,815	n/a
Risk margin	n/a	4,285	n/a
Provisions other than technical provisions	250	250	0
Deposits from reinsurers	173,502	122,726	50,776
Deferred tax liabilities	86	1,268	(1,182)
Financial liabilities other than debts owed to credit institutions	365	365	0
Insurance & intermediaries payables	1,671	1,671	0
Reinsurance payables	5,950	5,154	796
Payables (trade, not insurance)	6,591	6,591	0
Any other liabilities, not elsewhere shown	34,522	1,046	33,475
TOTAL LIABILITIES	457,935	262,171	195,763
EXCESS OF ASSETS OVER LIABILITIES	29,762	35,530	(5,769)

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 assets

See the “Deferred tax liabilities” section under “D.3. Other liabilities” 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 hold a Collective Investments Undertakings as contingency in case DAS LEI will need a third country branch, this is valued at fair value for SII purposes. This is not material and may no longer be required as the Part VII transfer of the Irish business may be completed by the time that the Brexit transitional period ends.

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.

Other loans and mortgages

This balance relates to an intercompany loan. For the financial statements, this is included at amortised cost, and includes the accrued interest. For SII, the valuation basis is fair value, which is deemed materially the same as the valuation in the financial statements (see section D.4 below for more details).

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 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 2019 in both of the SII and financial statements balance sheets:

All amounts in £'000s	SII	Financial statements
Total gross	118,815	234,998
Risk margin	4,285	N/A
Reinsurance recoverable*	(115,161)	(207,927)
Total net	7,939	27,072

*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 2019
	Total	7,978
Direct business and accepted proportional reinsurance	Legal expenses insurance	6,550
	Assistance	549
	Miscellaneous financial loss	880
Non-proportional reinsurance	Total	(39)
Total		7,939

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 2019 (£'000s)	Financial statements	Solvency II	Difference
Total gross	227,636	111,687	115,949
Risk margin	N/A	4,135	(4,135)
Reinsurance recoverable*	(201,382)	(109,272)	(92,111)
Total net	26,254	6,550	19,704

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

Technical provisions: Assistance LOB

31 December 2019 (£'000s)	Financial statements	Solvency II	Difference
Total gross	2,665	2,972	(306)
Risk margin	N/A	55	(55)
Reinsurance recoverable*	(2,378)	(2,478)	100
Total net	287	549	(261)

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

Technical provisions: Miscellaneous financial loss LOB

31 December 2019 (£'000s)	Financial statements	Solvency II	Difference
Total gross	4,697	4,217	481
Risk margin	N/A	91	(91)
Reinsurance recoverable*	(4,166)	(3,428)	(738)
Total net	531	880	(349)

*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 best estimates of 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 £3,800k. (£3,800k at 31 December 2018). The key items justifying the ENID held in CPs are the extent and quality of data, level of sophistication of reserving methods 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 ATE was set at 15% of projected claims cost for civil litigation and 5% for other ATE classes.

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 £3,199k (2018: £4,918k). The booked reserves include an allowance for potential adverse experience, which is removed and replaced with an identical amount for events not in data (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 as specified in the following material reinsurance arrangements:

- A 90% quota share arrangement with ERGO encompassing all business net of other reinsurance;
- 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. Note that in 2018, all of these arrangements were given notice and all are in run-off from Q2 2019.
- 100% quota share treaty with ARAG Allgemeine Versicherungs AG relating to all Irish business.
- 100% quota share treaty with HSB Engineering Insurance Limited relating to cyber risks.

The cash flow patterns of the deposits for reinsurance were assumed to follow those of the claims and expenses elements of the incepted unearned business. For the ERGO arrangement, interest payments were also calculated.

As the reinsurance commission arising out of the ERGO quota share arrangement 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. The results were checked to ensure that they were appropriate.

Changes in methodologies and assumptions since previous valuation

For CPs, there was one material change in assumptions or methodology gross of reinsurance:

- Expense allocation assumptions were updated, leading to a decrease in CPs of £252k, almost all in BTE.

The main methodology and assumption changes in respect of the PPs are:

- A detailed review of the Q3 ATE performance models plus the addition of Q4 business, increased embedded profit before expenses by £7,131k; and
- Expenses increased by £3,329k partly due to the expense allocation review at 2019 year end but also due to a review of contract boundaries BTE.

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 2019, 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	-	16,061	(16,061)
Investments (Government bonds)	-	-	-
Other assets/liabilities	3	170	(167)
Deferred tax asset	3	16,231	16,228
Net technical provisions incl. deferred acquisition costs	-	(7,899)	7,899
Investments (Government bonds)	(89)	(89)	-
Other liabilities	-	(9,510)	9,510
Deferred tax liability	(89)	(17,498)	17,409
Net deferred tax (liability)/asset	(86)	(1,268)	1,182

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 2019:

Classification	Expecting timing of crystallisation of temporary difference	Deferred tax valuation rate
Short term	Prior to 1 April 2020	19%
Long term	From 1 April 2020	17%

The expected timing of crystallisation of temporary differences as at 31 December 2019 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 17%	17%
Other assets	Short-term	Pre 2020 unwinding expected	19%
Net technical provisions incl. deferred acquisition costs	Both short-term and long-term	Long term unwinding portion valued at 17%	19% and 17%
Other liabilities	Short-term	Pre 2020 unwinding expected	19%
Investments (Government bonds)	Short-term	Liquid investments	19%

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 arising 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 (£30,276k), and amounts that will be repaid to reinsurers as their share of profit on the reinsured business (£3,199k). 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 "market-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
- Collective Investment Undertakings
- Deferred tax assets/liabilities
- Reinsurance recoverables
- Insurance and intermediaries receivables
- Receivables (trade, not insurance)
- Any other assets, not elsewhere shown
- Provisions other than technical provisions
- Deposits from reinsurers
- Financial liabilities other than debts owed to credit institutions
- Insurance and intermediaries payables
- Reinsurance payables
- Payables (trade, not insurance)

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 Guideline. DAS LEI has a “minimal” appetite for capital management risk, such that it has a preference for ultra-safe options that are low risk.

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 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.

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 2019		31 December 2018	
	Total	Tier 1 - unrestricted	Total	Tier 1 - unrestricted
Item				
Basic own funds				
Ordinary share capital	13,000	13,000	13,000	13,000
Reconciliation reserve	22,530	22,530	19,932	19,932
Total basic own funds after deductions	35,530	35,530	32,932	32,932
Total available own funds to meet SCR	35,530	35,530	32,932	32,932
Total available own funds to meet MCR	35,530	35,530	32,932	32,932
Total eligible own funds to meet SCR	35,530	35,530	32,932	32,932
Total eligible own funds to meet MCR	35,530	35,530	32,932	32,932
SCR	19,661		19,329	
MCR	4,915		4,832	
Ratio of eligible own funds to SCR	180.72%		170.38%	
Ratio of eligible own funds to MCR	722.87%		681.51%	

The increase in basic own funds is largely due to an increase in the underlying results, which included a recovery of £3,733k where DAS LEI was involved in a private criminal prosecution against a former CEO.

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 2019 £'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)	22,530	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.
Total basic own funds	35,530	

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 2019	£'000s
Equity in financial statements	29,762
Reinsurance recoverables adjustment in respect of future reinsurance premiums on ATE business (see section D.1)	(92,766)
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)	(89,803)
Difference in the valuation of prepayments (see D.1)	(1,003)
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)	50,776
Amount owed by ERGO under the quota share reinsurance agreement included under Reinsurance receivables 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)	27
Reinsurance payables premiums in respect of reinsured ATE business considered in the valuation of the reinsurance recoverables (see D.3)	796
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)	33,475
Change in technical provisions due to recognition on SII basis largely offsetting differences above (see D.2)	116,184
Risk margin added to best estimate technical provisions (D.2)	(4,285)
Removal of deferred acquisition costs (D.1)	(6,456)
Movement in net deferred tax (D.1)	(1,182)
Other	6
SII basic own funds	35,530

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.

Components of the SCR (£'000s unless stated)	31 Dec 2019	31 Dec 2018
Market risk	3,134	2,597
Counterparty default risk	7,677	7,389
Non-life underwriting risk	10,936	10,754
Diversification	(4,384)	(4,007)
Basic Solvency Capital Requirement*	17,364	16,734
Operational risk	3,564	3,811
Loss-absorbing capacity of deferred taxes	(1,268)	(1,216)
Net Solvency Capital Requirements calculated using Standard Formula	19,661	19,329
SII eligible own funds	35,524	32,932
Solvency ratio	180.69%	170.38%

*(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 slightly due to small increases in non-life underwriting risk, market risk and counterparty default risk. These increases were partially offset by an increase in diversification. The increase in non-life underwriting risk from £10,754k to £10,936k is driven by:

- a reduction in premium risk from £3,912k to £3,775k;
- a reduction in reserve risk from £7,316k to £7,110k caused by the a reduction in the net claims provisions;
- a £1,012k increase in lapse risk resulting from the increase in the future profits exposed to lapse risk.

The increase in counterparty default risk from £7,389k to £7,677k is driven by:

- An increase in Type 1 counterparty default risk from £691k to £1,649k mainly due to an increase of £11,025k in cash held but also due to the addition of £2,433k being held in a lower-rated EUR-denominated bank account and due to an increase of around £875k of reinsurance recoverables including the addition of the ARAG reinsurance treaty.
- A reduction in Type 2 counterparty default risk from £6,857k to £6,363k from movements in debtors and creditors.

Furthermore, there was an increase in the loss-absorbing capacity of deferred taxes.

The MCR for 31 December 2019 is 25% of the SCR (the capital “floor” as prescribed in the regulations). The MCR reduced in 2019 from £4,832k at 31 December 2018 to £4,615k at 31 December 2019. 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 2019	£'000s	%
Linear MCR	1,290	26.2%
SCR with add-on	19,661	400.0%
MCR cap	8,847	180.0%
MCR floor	4,915	100.0%
Combined MCR	4,915	100.0%
Absolute floor of the MCR	2,155	43.9%
MCR	4,915	100.0%

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

DAS LEI has no exposure to equities; the equity risk sub-module is not relevant.

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 of 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) 2015/2452¹ 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”).

¹ As amended by Commission Implementing Regulation (EU) 2017/2190 of 24 November 2017, Commission Implementing Regulation (EU) 2018/1843 of 23 November 2018 and Commission Implementing Regulation (EU) 2019/2102 of 27 November 2019.

Appendix 1.1: S.02.01.02 - Balance sheet

All amounts are in £'000s.

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	362
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	114,658
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	114,116
Government Bonds	R0140	89,157
Corporate Bonds	R0150	23,658
Structured notes	R0160	1,300
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	542
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	115,161
Non-life and health similar to non-life	R0280	115,161
Non-life excluding health	R0290	115,161
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	36,776
Reinsurance receivables	R0370	2,056
Receivables (trade, not insurance)	R0380	11,597
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	17,207
Any other assets, not elsewhere shown	R0420	55
Total assets	R0500	297,871

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

Liabilities		
Technical provisions – non-life	R0510	123,100
Technical provisions – non-life (excluding health)	R0520	123,100
TP calculated as a whole	R0530	0
Best Estimate	R0540	118,815
Risk margin	R0550	4,285
Technical provisions - health (similar to non-life)	R0560	0
TP calculated as a whole	R0570	0
Best Estimate	R0580	0
Risk margin	R0590	0
Technical provisions - life (excluding index-linked and unit-linked)	R0600	0
Technical provisions - health (similar to life)	R0610	0
TP calculated as a whole	R0620	0
Best Estimate	R0630	0
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	0
TP calculated as a whole	R0660	0
Best Estimate	R0670	0
Risk margin	R0680	0
Technical provisions – index-linked and unit-linked	R0690	0
TP calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	0
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	122,726
Deferred tax liabilities	R0780	1,268
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	365
Insurance & intermediaries payables	R0820	1,671
Reinsurance payables	R0830	5,154
Payables (trade, not insurance)	R0840	6,761
Subordinated liabilities	R0850	0
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	1,296
Total liabilities	R0900	262,341
Excess of assets over liabilities	R1000	35,530

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	
Premiums written									
Gross - Direct Business	R0110	70,987	5,732	5,063					81,782
Gross - Proportional reinsurance accepted	R0120	32,971	0	0					32,971
Gross - Non-proportional reinsurance accepted	R0130				0	0	0	0	0
Reinsurers' share	R0140	93,902	5,159	4,557	0	0	0	0	103,618
Net	R0200	10,056	573	506	0	0	0	0	11,136
Premiums earned									
Gross - Direct Business	R0210	73,901	5,236	5,372					84,509
Gross - Proportional reinsurance accepted	R0220	32,089	0	0					32,089
Gross - Non-proportional reinsurance accepted	R0230				0	0	0	0	0
Reinsurers' share	R0240	95,939	4,713	4,835	0	0	0	0	105,487
Net	R0300	10,051	524	537	0	0	0	0	11,112
Claims incurred									
Gross - Direct Business	R0310	47,638	3,525	4,181					55,344
Gross - Proportional reinsurance accepted	R0320	22,126	0	0					22,126
Gross - Non-proportional reinsurance accepted	R0330				0	0	0	0	0
Reinsurers' share	R0340	63,037	3,185	3,778	0	0	0	0	70,000
Net	R0400	6,727	340	403	0	0	0	0	7,470
Changes in other technical provisions									
Gross - Direct Business	R0410	0	0	0					0
Gross - Proportional reinsurance accepted	R0420	0	0	0					0
Gross - Non-proportional reinsurance accepted	R0430				0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0
Expenses incurred	R0550	7,383	372	400	0	0	0	0	8,155
Other expenses	R1200								3,550
Total expenses	R1300								11,705

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	
Technical provisions calculated as a whole	R0010	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	R0050	0	0	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM									
Best estimate									
<i>Premium provisions</i>									
Gross	R0060	(10,276)	2,372	2,360	0	0	0	(61)	(5,605)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	6,752	1,957	1,890	0	0	0	(17)	10,582
Net Best Estimate of Premium Provisions	R0150	(17,029)	415	470	0	0	0	(43)	(16,187)
<i>Claims provisions</i>									
Gross	R0160	121,963	600	1,857	0	0	0	0	124,420
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	102,519	521	1,538	0	0	0	0	104,578
Net Best Estimate of Claims Provisions	R0250	19,444	79	319	0	0	0	0	19,841
Total Best estimate - gross	R0260	111,687	2,972	4,217	0	0	0	(61)	118,815
Total Best estimate - net	R0270	2,415	494	788	0	0	0	(43)	3,654
Risk margin	R0280	4,135	55	91	0	0	0	4	4,285
Amount of the transitional on Technical Provisions									
Technical Provisions calculated as a whole	R0290	0	0	0	0	0	0	0	0
Best estimate	R0300	0	0	0	0	0	0	0	0
Risk margin	R0310	0	0	0	0	0	0	0	0
Technical provisions - total									
Technical provisions - total	R0320	115,822	3,027	4,308	0	0	0	(56)	123,100
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	109,272	2,478	3,428	0	0	0	(17)	115,161
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	6,550	549	880	0	0	0	(39)	7,939

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

Total Non-Life Business

Accident year / Underwriting year	Z0020	1 - Accident year
-----------------------------------	--------------	-------------------

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 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100			C0110
Prior	R0100											786	786	786
2010	R0160	27,223	15,000	6,850	4,429	2,316	1,688	1,188	482	866	435		435	60,476
2011	R0170	31,893	13,851	6,186	3,636	2,260	1,347	825	718	495			495	61,210
2012	R0180	37,533	12,852	6,686	3,858	1,559	1,503	2,248	948				948	67,186
2013	R0190	43,633	12,938	6,512	2,993	2,117	2,969	1,224					1,224	72,386
2014	R0200	49,636	13,623	6,766	3,809	3,144	2,176						2,176	79,154
2015	R0210	61,486	19,421	6,109	6,323	3,051							3,051	96,391
2016	R0220	54,184	16,677	9,393	5,167								5,167	85,421
2017	R0230	47,371	13,928	8,185									8,185	69,484
2018	R0240	38,669	14,380										14,380	53,049
2019	R0250	38,926											38,926	38,926
Total	R0260												75,773	684,470

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	R0100											3,602	3,524
2010	R0160	0	0	0	0	0	0	2,904	3,589	1,817	1,171		1,146
2011	R0170	0	0	0	0	0	4,272	3,370	1,842	969			948
2012	R0180	0	0	0	0	9,319	6,016	3,056	1,671				1,636
2013	R0190	0	0	0	11,032	7,633	5,461	3,719					3,639
2014	R0200	0	0	16,296	9,735	6,547	4,675						4,574
2015	R0210	0	29,868	16,386	10,322	6,638							6,496
2016	R0220	50,506	28,224	15,306	10,051								9,835
2017	R0230	48,608	28,696	15,829									15,490
2018	R0240	50,451	31,286										30,626
2019	R0250	47,493											46,505
Total	R0260												124,420

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
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	13,000	13,000		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	22,530	22,530			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
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						
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	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	0
Total basic own funds after deductions	R0290	35,530	35,530	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
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	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	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	35,530	35,530	0	0	0
Total available own funds to meet the MCR	R0510	35,530	35,530	0	0	
Total eligible own funds to meet the SCR	R0540	35,530	35,530	0	0	0
Total eligible own funds to meet the MCR	R0550	35,530	35,530	0	0	
SCR	R0580	19,661				
MCR	R0600	4,915				
Ratio of Eligible own funds to SCR	R0620	181%				
Ratio of Eligible own funds to MCR	R0640	723%				

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.

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	35,530
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	0
Other basic own fund items	R0730	13,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Reconciliation reserve	R0760	22,530
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	0
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	19,949
Total Expected profits included in future premiums (EPIFP)	R0790	19,949

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	3,134		
Counterparty default risk	R0020	7,677		
Life underwriting risk	R0030	0		
Health underwriting risk	R0040	0		
Non-life underwriting risk	R0050	10,936	None	
Diversification	R0060	(4,384)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	17,364		

Calculation of Solvency Capital Requirement		Value
		C0100
Operational risk	R0130	3,564
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	(1,268)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	19,661
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	19,661
Other information on SCR		
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	(1,268)
LAC DT justified by reversion of deferred tax liabilities	R0650	(1,268)
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	(3,558)

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 _{NL} Result	R0010	1,290		
			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		2,415	10,068
Assistance and proportional reinsurance	R0120		494	439
Miscellaneous financial loss insurance and proportional reinsurance	R0130		788	628
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	1

Overall MCR calculation		C0070
Linear MCR	R0300	1,290
SCR	R0310	19,661
MCR cap	R0320	8,847
MCR floor	R0330	4,915
Combined MCR	R0340	4,915
Absolute floor of the MCR	R0350	2,155
		C0070
Minimum Capital Requirement	R0400	4,915

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 will be transferred on completion of a Part VII transfer under the Financial Services and Markets Act 2000.
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.
Nexus	A company-wide transformation programme, which challenged the operating model of DAS UK.
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 http://www.prarulebook.co.uk/
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.