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The Standard Club UK Ltd

# Solvency and Financial Condition Report (SFCR) 2022



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## DIRECTORS' STATEMENT

The Board of Directors of The Standard Club UK Ltd ("Standard UK") acknowledge their responsibility for the proper preparation of the Solvency Financial Condition Report ("SFCR") in all material respects with the PRA Rules and the Solvency II Regulations.

The Board is satisfied that to the best of its knowledge and belief:

- (a) throughout the financial year to 20 February 2022, Standard UK has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to Standard UK; and
- (b) it is reasonable to believe that Standard UK has continued to comply subsequently and will continue to so in the future.

By order of the Board



A Groom  
Director  
May 2022

## SUMMARY

This is the Solvency and Financial Condition Report (“SFCR”) for The Standard Club UK Limited (“Standard UK”) for the year ended 20 February 2022. The purpose of the SFCR is to meet the public disclosure requirements of Articles 290 to 303 of the Commission Delegated Regulation (EU) 2015/35.

The report sets out different aspects of Standard UK’s solvency and financial condition, specifically its business and performance, system of governance, risk profile, valuation methods used for the calculation of its balance sheet, and capital management practices. The report should be read in conjunction with the information in the quantitative reporting templates provided at the end of this report. Standard UK’s financial year runs to 20 February each year and it reports its results in US dollars.

The ultimate administrative body that has the responsibility for all of these matters is Standard UK’s Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

The Standard UK’s solvency position as at 20 February 2022 is shown below:

As at 20 February	2022 US\$'000	2021 US\$'000
Own Funds - Basic (reconciliation reserve)	47,664	59,987
Own Funds - Ancillary	13,035	12,982
<b>Total Eligible Own Funds</b>	<b>60,699</b>	<b>72,969</b>
<b>Solvency Capital Requirement</b>	<b>40,187</b>	<b>43,896</b>
Solvency II Surplus	20,512	29,072
Cover ratio	151%	166%

### Business and performance

Standard UK is a marine mutual insurance company, providing marine protection and indemnity (P&I) insurance and related covers to its shipowner members. Standard UK is a subsidiary of The Standard Club Limited (“Standard Club”) and part of the Standard Club group (“the Standard Group” or “club”). From midday 20 February 2019, all European Union (“EU”) business previously underwritten by Standard UK, is now underwritten by the Standard Club’s EU subsidiary, The Standard Club Ireland DAC (“Standard Ireland”). Further information on the Standard Club’s strategy on the UK exit from the EU is in section A.1(10) of this report. Standard UK is managed by a group management company, Standard Club Management (UK) Limited, and other related group management companies (“managers”).

As a mutual insurance company, Standard UK does not aim to make underwriting surpluses and instead its goal is break-even underwriting with investment returns used to strengthen Standard UK’s capital base. For the year to 20 February 2022 Standard UK recorded a shortfall for the year of \$4.0m, with a \$1.1m underwriting deficit, a \$0.9m investment deficit, a \$2.1m foreign exchange loss and a \$0.1m tax credit. A dividend of \$10.0m was paid during the year to the parent, the Standard Club.

Section A of this report sets out further details about Standard UK’s business structure, key operations and financial performance over the reporting period.

### System of Governance

Standard UK’s Board is responsible for ensuring that an appropriate system of governance is in place. The system of governance has not changed materially during the year. In light of the transition to an in-house management structure, the board and managers are reviewing and assessing the governance structures of the club and will make changes as necessary to ensure that the club’s governance structure is aligned with its business objectives, legal and regulatory requirements, and good practice. The review will create a governance structure that is



effective and fit for purpose, with the appropriate committees, to provide clarity of decision-making, roles and responsibilities, and an appropriate and effective oversight of management and operations. A working group comprising the chairmen of the club and each subsidiary has been created to oversee the review.

The Board's role is to lead and act as a representative of the members, effectively promoting their interests within a framework of effective processes and controls. They are responsible for setting strategy and overseeing that the company is managed in accordance with risk appetite. The Board also delegates clearly defined responsibilities to its Audit and Risk Committee, including in-depth monitoring of the internal control framework and the risk management framework.

Section B of this report provides further detail about Standard UK's system of governance, the roles and responsibilities of the Board and the four key control functions (Risk Management, Actuarial, Compliance and Internal Audit). It covers the risk management framework and internal control system and explains how it complies with the requirements of Solvency II. It also describes the approach to Standard UK's Own Risk and Solvency Assessment (ORSA) and governance over the process.

### Risk profile

The primary risk Standard UK faces is the non-life underwriting risk arising out of the P&I insurance it provides to its members.

Standard UK has in place significant levels of external reinsurance to protect itself from large claim events, and also has in place a 90% quota share reinsurance with its fellow Standard Group subsidiary, Standard Reinsurance (Bermuda) Ltd. Although this comprehensive level of reinsurance protection mitigates the level of non-life underwriting risk, this does generate a large secondary risk arising from potential counterparty default. Standard UK also faces market risk arising out of its investment portfolio, and operational risk.

The Solvency Capital Requirement (SCR), which is calculated as Solvency II Own Funds at risk in a 1-in-200 year loss event over a 1 year time horizon (and calculated using the Standard Formula), quantifies these risks. A summary of Standard UK's diversified SCR by primary risk type at 20 February 2022 is set out below:

<b>Solvency Capital Requirement (SCR)</b>	<b>2022 US\$'000</b>	<b>2021 US\$'000</b>
Market risk	8,363	10,525
Counter party default risk	19,208	20,734
Non-life underwriting risk	12,248	12,679
<b>Undiversified BSCR</b>	<b>39,818</b>	<b>43,938</b>
Diversification	(8,904)	(10,172)
<b>Basic SCR</b>	<b>30,913</b>	<b>33,766</b>
Operational risk	9,274	10,130
<b>Final SCR</b>	<b>40,187</b>	<b>43,896</b>
<b>Minimum Capital Requirement (MCR)</b>	<b>10,047</b>	<b>10,974</b>

Section C of this report further describes the risks to which Standard UK is exposed, how the risks are assessed and mitigated, including any specific risk mitigation actions taken, risk concentrations and risk sensitivity.

### Valuation for Solvency Purposes

Assets, technical provisions and other liabilities are valued in the Company's Solvency II Balance Sheet according to Solvency II regulations. The principle that underlies the valuation methodology for Solvency II purposes is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

At 20 February 2022, Standard UK's excess of assets over liabilities is \$47.7m on a Solvency II basis which is \$10.0m lower than the value under UK GAAP as presented in Standard UK's financial statements. The difference

is driven by the inclusion of a \$10.1m risk margin required to be held for Solvency II as part of the technical provisions. Further information on the Solvency II technical provision is in Section D.2 of this report.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset/liability class. In addition, it also provides an explanation of the material differences between the UK GAAP and Solvency II bases of valuation.

### **Capital management**

The primary objective of capital management is to maintain economic and regulatory capital in accordance with risk appetite, whilst managing the balance between return and risk.

Standard UK and board's tolerance for risk (at both Standard UK and Standard Group level) is limited by the desire to minimise the chance of making unbudgeted calls on Standard UK's membership, and so Standard UK seeks to maintain sufficient capital such that the chance of a supplementary call is less than 10% over the financial year.

Standard UK's own funds are equal to the excess of assets over liabilities of its Solvency II balance sheet (\$47.7m), plus the ability to make unbudgeted supplementary calls (tier two ancillary own funds, \$13.0m). The excess of assets over liabilities consists of the reconciliation reserve (tier one capital, \$47.7m. Tier two capital is restricted based on the formula  $ETP \times M \times R$ , where ETP is the mutual premium, M is 0.30 and R is 0.65.

Own funds (at both Standard UK and Standard Group level) are well in excess of regulatory capital requirements. Section E of this report further describes the own funds of Standard UK, calculation of the SCR and MCR, and an assessment of future capital requirements and surplus capital of Standard UK.

### **New operating model**

On 20 August 2021 the Standard Club transitioned to a new operating model with core management performed by 'in house' managers owned by the Standard Club. The same management team remains in place, with the same individuals and teams continuing to service members' and brokers' needs and carrying out core management, underwriting, claims handling, loss prevention, finance, reserving and control activities. This change has enabled the Standard Club to insource and manage its day-to-day operations, while retaining the entrepreneurial and member-centric culture that has led to its success over many decades. As part of the transition the outsourcing framework under which the new operating model is governed has been reviewed. New contractual agreements are in place with Charles Taylor with effect from August 2021 for the provision of support services including Standard Club's technology and IT services, investment management, internal audit and other support services under multi-year contracts.

### **North merger**

On 14 March 2022, Standard Club announced it was in discussions with North P&I about combining jointly to create a club at the forefront of global marine insurance, acting as a powerful industry voice and uphold the values of the International Group system. A dedicated project team has been established to ensure all aspects of the discussion are managed effectively. Members' votes are planned for 27 May 2022.

### **Environmental, social and governance (ESG)**

The Standard Club has long held a forward-looking approach to identifying, assessing, managing and monitoring risks and in October 2020 an internal Sustainability Working Group was established, to ensure a coordinated and strategic approach to the club's management of these issues. In 2021, the club conducted an internal materiality assessment to understand the full impact of any environmental, social and governance issues which might affect the organisation, while highlighting any areas for potential meaningful change moving forward. This assessment has enabled the club's management team to identify the sustainability topics which are most material to the club's operations and its long-term success. The intention being to ensure that trends are identified which might affect the club's ability to provide P&I covers which represent excellent and sustainable value; enhance business strategy using materiality inputs to reflect new business risks and opportunities; prioritise the club's resources to address sustainability issues that matter most to members and other stakeholders; and to identify areas of interest to the club's key stakeholders.

The club's first sustainability report will be published later this year, outlining the findings from this initial assessment and the club's coordinated and strategic approach to managing sustainability issues in the future. As a member of the International Group (IG) of P&I Clubs, the club also supports the IG's sustainability strategy and has actively contributed to the IG's own sustainability report which is due to be published in the summer of 2022.

Climate change represents one of the greatest long-term risks for society and industry, including the insurance and shipping industry. The club continues to take a strategic and long-term approach to managing the insurance risks of its members associated with climate change which are considered as part of the governance and risk management framework. Risks from climate change have been included in the Standard UK's risk appetite across key risk areas. The club uses scenario analysis to inform the risk identification process to further understand the short- and long-term financial risks in its business model. The emerging risk framework monitors physical, transitional and litigation risks from climate change and a cross-divisional working group inputs into the risk management framework. The maritime industry is embarking on a major technology transition driven by the need to decarbonise which will have a significant impact on costs, asset values, and earning capacity as it shifts from conventional to zero or carbon neutral fuels. The club continues to look at ways that it can further develop its framework in relation to climate change and has identified the need for industry wide common metrics to facilitate meaningful targets and a deeper understanding of the challenges facing our members.

In terms of the club's day-to-day operations, the managers have taken steps to reduce carbon footprint and minimise energy consumption through an energy management policy and by promoting and building awareness of environmental responsibility amongst employees. They communicate and engage with staff at all levels to identify, assess and reduce operational impact on the environment.

### **Covid-19**

The directors have been monitoring the development of the impacts of COVID-19 throughout the pandemic. Claims related to COVID-19 have been closely tracked throughout the year and claims estimates (including IBNR) for the 2021/22 year is approximately \$6m. This net claim impact on Standard UK is mitigated by the 90% quota share reinsurance with Standard Re. Standard UK has adapted successfully to a hybrid working environment, reflecting previous investments to support the resilience of the workforce, ensuring that the club has maintained a high level of service to members.



## A. BUSINESS AND PERFORMANCE

### A.1 BUSINESS

#### Company Information

1. **Name**

The Standard Club UK Limited

2. **Legal form**

A private company limited by guarantee, registered in England and Wales No. 17864

3. **Supervisory authority of company**

Prudential Regulation Authority  
20 Moorgate  
London EC2R 6DA

Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

4. **Supervisory authority of parent**

Bermuda Monetary Authority  
BMA House  
43 Victoria Street  
Hamilton HM12  
Bermuda

PO Box 2447  
Hamilton HMJX  
Bermuda  
Tel: (441) 295 5278

5. **Auditors**

BDO LLP  
150 Aldersgate Street  
London  
EC1A 4AB

6. **Managers**

Standard Club Management (UK) Limited and other related group management companies governed by associated intragroup services agreements.

7. **Holders of qualifying holdings**

The directors regard The Standard Club Limited, a company limited by guarantee and registered in Bermuda (no. 1837), as the immediate and ultimate parent undertaking and ultimate controlling party by virtue of it holding 75% of the voting rights of Standard UK (the remaining 25% are held by Standard UK's members, who are also members of The Standard Club Limited).

Copies of the consolidated financial statements of The Standard Club Limited can be obtained from the registered office: Swan Building, 26 Victoria Street, Hamilton HM 12, Bermuda.

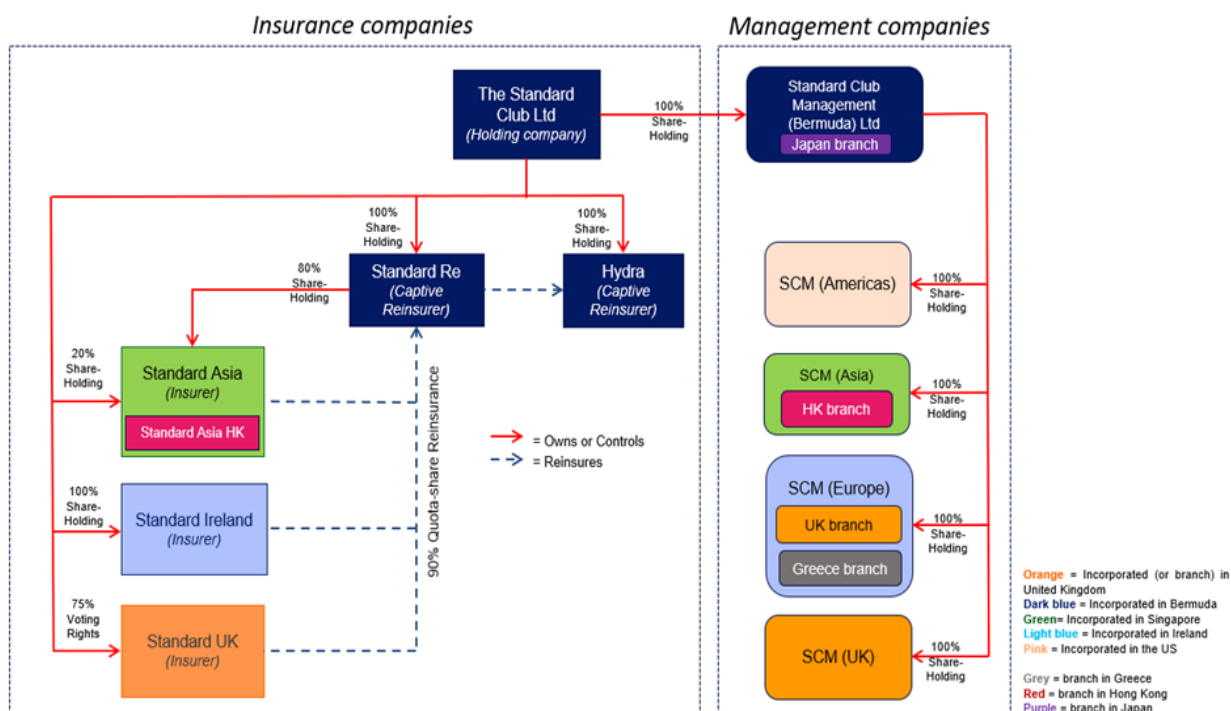
8. **Principal activities**

The principal activities of Standard UK are the insurance and reinsurance of marine protection and indemnity (P&I) and related risks, war risks, strike and delay, and defence risks, on behalf of its members.

Standard UK conducts business internationally; the material geographical areas where it carries out business are the UK, North and South America, Turkey, Switzerland and Japan. Standard UK is registered as an alien insurer in New York State, permitting it to write surplus lines insurance throughout the United States.

## 9. Group structure

The group structure chart as at March 2022 indicating the position of Standard UK within the Standard Group is shown below.



## 10. Other information

On 20 August 2021 the Standard Club transitioned to a new operating model with core management performed by an 'in house' manager owned by the Standard Club. The same management team remains in place, with the same individuals and teams continuing to service members' and brokers' needs and carrying out core management, underwriting, claims handling, loss prevention, finance, reserving and control activities. This change has enabled the Standard Club to insource and manage its day-to-day operations, while retaining the entrepreneurial and member-centric culture that has led to its success over many decades. As part of the transition to the new operating model the outsourcing framework under which the new operating model is governed, has been reviewed. New contractual arrangements are in place with Charles Taylor with effect from August 2021 for the provision of support services including Standard Club's technology and services, investment management, internal audit and other support services under multi-year contracts.

On 14 March 2022 the Standard Club announced that it was in discussions with North Protection & Indemnity Club to explore the potential of combining to jointly create a club at the forefront of global marine insurance, acting as a powerful industry voice and uphold the values of the International Group system. The directors of the Standard Club board gave its approval for discussions to continue. A dedicated project team has been established to ensure all aspects of the discussions are managed effectively. A member vote will be taken in May 2022.

## A.2 UNDERWRITING PERFORMANCE

As a mutual insurance company, Standard UK does not aim to make underwriting surpluses and instead its goal is break-even underwriting with investment returns used to strengthen Standard UK's capital base.

Standard UK achieved a financial year combined ratio of 101% (2021: 107%) after application of the quota share reinsurance with Standard UK's fellow subsidiary, Standard Re (2022: 115% and 2021: 171% before quota share).

At a Standard Group level the combined ratio for the financial year was 105% (2021: 121%).

Standard UK's free reserves stood at \$57.6m at the year-end (2021: \$71.6m). Standard UK's underwriting result as set out in Standard UK's financial statements is summarised below.

	20 February 2022	20 February 2021
	Total \$m	Total \$m
Premium Income	104.2	100.2
RI Premium	(95.3)	(92.4)
<b>Net Premium</b>	<b>8.9</b>	<b>7.8</b>
Gross claims	106.4	168.8
RI Recovery	(97.4)	(154.9)
<b>Net Claims</b>	<b>9.0</b>	<b>13.9</b>
Operating Costs	1.0	0.9
<b>Net Costs</b>	<b>10.0</b>	<b>14.8</b>
<b>Underwriting Result</b>	<b>(1.1)</b>	<b>(7.0)</b>
Investment Return	(0.9)	2.5
Exchange gains/(losses)	(2.1)	2.9
Tax	0.1	(0.1)
<b>Surplus/Deficit</b>	<b>(4.0)</b>	<b>(1.7)</b>
<b>Reserves brought forward</b>	<b>71.6</b>	<b>83.3</b>
Surplus/Deficit	(4.0)	(1.7)
Dividends	(10.0)	(10.0)
<b>Reserves carried forward</b>	<b>57.6</b>	<b>71.6</b>
<b>Combined ratio</b>	<b>101%</b>	<b>107%</b>

Premium income for the year ended 20 February 2022 analysed by territory is as follows:

United States of America	19.1%	Qatar	2.9%
Turkey	15.0%	Brazil	2.2%
Japan	13.0%	Chile	2.2%
United Kingdom	11.3%	Australia	1.6%
Canada	9.5%	Monaco	1.3%
Switzerland	8.5%	Rest of Europe	2.1%
Singapore	5.0%	Rest of Asia	0.1%
Malaysia	3.8%	Rest of World	2.4%

## A.3 INVESTMENT PERFORMANCE

Standard UK's policy is to invest predominantly in stable assets. As such, the investment portfolio consists largely of fixed income assets and cash, as summarised below taken from the Solvency II balance sheet. Section D.1 provides further detail on the difference in valuation between UKGAAP and Solvency II.

	2022 US\$m	2021 US\$m
<b>Investment types, cash and cash equivalents</b>		
Government Bonds	35.1	11.5
Corporate Bonds	2.7	2.8
Bonds	37.7	14.4
Equities	0.0	0.0
Collective Investments Undertakings	21.0	33.6
Derivatives	19.6	10.1
Deposits other than cash equivalents	5.7	5.7
Cash and cash equivalents	14.9	10.4
<b>Total investments</b>	<b>98.9</b>	<b>74.1</b>

Standard UK achieved an overall investment return of minus \$0.9m (2021: \$2.5m). The investment return is further analysed as below.

	2022 US\$m	2021 US\$m
Equity-type funds included in collective investment undertakings	0.3	0.2
Bonds and bond-type funds included in collective investment undertakings	0.6	0.7
Deposits	-	-
Gains arising on realisation of investments	2.7	2.8
<b>Total investment income</b>	<b>3.6</b>	<b>3.7</b>
Investment management expenses	(0.1)	(0.1)
Losses on realisation of investments	(0.2)	(0.7)
<b>Total Investment expenses and charges</b>	<b>(0.3)</b>	<b>(0.8)</b>
Movement in unrealised gains on investments	(3.1)	(0.4)
Movement in unrealised losses on investments	(1.1)	-
<b>Total movement in unrealised gains and losses</b>	<b>(4.2)</b>	<b>(0.4)</b>
<b>Total investment return</b>	<b>(0.9)</b>	<b>2.5</b>

There were no investments in securitisations as at 20 February 2022 (2021: nil).

Investment management expenses of \$0.1m (2021: \$0.1m) are made up of bank charges and investment manager's fees.

Standard UK has also recorded a foreign exchange loss of \$2.1 (2021: \$2.9m surplus).

## A.4 PERFORMANCE OF OTHER ACTIVITIES

Standard UK has no material income or expenses other than the income and expenses included in section A.2.

## A.5 ANY OTHER INFORMATION

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

While the subject of sustainability has been discussed within the shipping industry and finance sectors for more than a decade, it has only been in recent years that insurers have started to consider the impact that sustainability issues could have on their business. On one level, Standard Club is already helping to underpin economic development and address sustainability issues on behalf of its members by actively preventing and managing the consequences of maritime losses. However, there are many other ways the club is working to support sustainability across the industry and in its own activities.

Standard Club has long held a forward-looking approach to identifying, assessing, managing and monitoring risks and in October 2020 an internal Sustainability Working Group was established, to ensure a coordinated and strategic approach to the club's management of these issues. The club's sustainability team is made up of representatives from all different aspects of the business: claims, underwriting, loss prevention, risk, compliance, marketing and finance. The team reports direct to the Chief Executive and in turn to the board. Alongside this, Standard Club's Alternative Fuels Working Group, internal Climate Change and Ship Recycling go-to teams, and CSR employee resource group are closely linked to the sustainability team, sharing insights and working together on key topics which impact upon the club, its members and staff.

In 2021, the club conducted an internal materiality assessment to understand the full impact of any environmental, social and governance issues which might affect the organisation, while highlighting any areas for potential meaningful change moving forward. This assessment has enabled the club's management team to identify the sustainability topics which are most material to the club's operations and its long-term success. The intention being to ensure that trends are identified which might affect the club's ability to provide P&I covers which represent excellent and sustainable value; enhance business strategy using materiality inputs to reflect new business risks and opportunities; prioritise the club's resources to address sustainability issues that matter most to members and other stakeholders; and to identify areas of interest to the club's key stakeholders.

Climate change represents one of the greatest long-term risks for society and industry, including the insurance industry. The club continues to take a strategic and long-term approach to managing the insurance risks of its members associated with climate change which are considered as part of the governance and risk management framework. Risks from climate change have been included in the club's risk appetite across key risk areas. The club uses scenario analysis to inform the risk identification process to further understand the short- and long-term financial risks in our business model. The emerging risk framework monitors physical, transitional and litigation risks from climate change and a cross-divisional working group inputs into the risk management framework. The club continues to look at ways that it can further develop its framework in relation to climate change and has identified the need for industry wide common metrics to facilitate meaningful targets and a deeper understanding of the challenges facing our members.

The International Maritime Organization (IMO) reports that maritime transport is responsible for about 3% of global greenhouse gas (GHG) emissions and the IMO adopted an Initial Strategy in 2018 on the reduction of GHG emissions from shipping by at least 50% by 2050, compared to 2008 levels, with an interim goal of 40% emissions reduction by 2030. In June 2021, IMO adopted key short-term measures to be introduced in 2023 aimed at facilitating the identification of industry metrics such as the Energy Efficiency Existing Ship Index (EEXI) and for ships over 5,000 gross tonnes an annual operational carbon intensity indicator (CII) and CII rating. The maritime industry is embarking on a major technology transition driven by the need to decarbonise which will have a significant impact on costs, asset values, and earning capacity as it shifts from conventional to zero or carbon neutral fuels. Standard Club's Alternative Fuel Working Group was established internally to assist members with their transition to alternative fuels, and an Alternative Fuel Advisory Panel has been set up comprising of experts from across the industry to help the Group with wider concerns. A survey by this group is currently assessing the club's members preparedness for the transition and the results will be used to further develop the club's management of this important risk.

Standard Club's first sustainability report will be published later this year, outlining the findings from this initial assessment and the club's coordinated and strategic approach to managing sustainability issues in the future. As a member of the International Group (IG) of P&I Clubs, Standard Club also supports the IG's sustainability strategy and has actively contributed to the IG's own sustainability report which is due to be published in the summer of 2022.



In terms of the club's day-to-day operations, the managers have taken steps to reduce carbon footprint and minimise energy consumption through an energy management policy and by promoting and building awareness of environmental responsibility amongst employees. They communicate and engage with staff at all levels to identify, assess and reduce operational impact on the environment.

The shift to agile working, with staff working a number of days per week from home, has cut employee commuting emissions and business travel emissions compared with pre-Covid levels. With the restrictions around travel being eased, the managers are looking at ways to preserve these carbon savings through the continued use of conferencing technologies. Furthermore, we are actively encouraging staff to consider the environmental impacts of travel when determining whether a business trip is necessary.

There is a target of purchasing electricity globally from renewable energy sources. Where practicable, the managers source other supplies from local businesses to minimise distribution and transport-related emissions. Suppliers are required, as far as reasonable, to have an appropriate environmental policy.

## **COVID-19**

The directors have been monitoring the development of the impacts of COVID-19 throughout the pandemic. Claims related to COVID-19 have been closely tracked throughout the year and claims estimates (including IBNR) for the 2021/22 year is approximately \$6m. This net claim impact on Standard UK is mitigated by the 90% quota share reinsurance with Standard Re. Standard UK has adapted successfully to a hybrid working environment, reflecting previous investments to support the resilience of the workforce, ensuring that the club has maintained a high level of service to members.

## **UKRAINE/RUSSIA**

In late February 2022, Russia launched an attack on Ukraine, marking a sudden escalation of the conflict between the two countries. As a result, significant sanctions have been placed on Russia by countries such as the United States of America, the United Kingdom and members of the European Union. The club established an internal working group to consider and monitor the impact on our business and members of the evolving situation in Ukraine. The team has representatives from Legal, Claims, Underwriting, Reinsurance, Risk, Compliance, Actuarial, Loss Prevention, the Sanctions Team, and Finance (including investments). The working group convenes at least twice weekly to assess the position of the club and provide guidance to employees and members on related developments.

## B. SYSTEM OF GOVERNANCE

### B.1 GENERAL INFORMATION ON SYSTEM OF GOVERNANCE

#### System of Governance

##### 1. Governing body – the board of The Standard Club UK Limited

The board of Standard UK comprises six directors, of whom:

- Three are drawn from leadership positions within shipping businesses which are insured by Standard UK;
- Two (including the Chairman) are non-executive directors with insurance industry experience;
- One is a club employee and is the group CEO executive director. .

All the directors of Standard UK are also directors of the Standard Club.

##### a) Role of the board

The role of the board is to focus on those tasks that are unique to it as the representative of the members and necessary for it to undertake the effective promotion of their interests.

The board will assure itself that Standard UK is achieving its purpose by satisfying itself that the business plan developed by the managers and accepted by the board represents a satisfactory means of progressing its purpose.

The board's tasks include:

- to ensure that Standard UK achieves its purpose, and in doing so ensures that the concept of mutuality is maintained and that all members are treated fairly;
- to set Standard UK's strategy and to agree its business plan;
- to set Standard UK's risk appetite;
- to ensure that Standard UK is managed in accordance with good business principles;
- to ensure that suitable systems and controls are in place to ensure that Standard UK is managed prudently and in accordance with legal and regulatory requirements;
- subject to the Articles, to review the performance of the managers and agree their remuneration;
- to decide such other specific matters which are, according to the Articles or the rules or as determined from time to time by the board, reserved for the board's decision.

##### 2. Board committees

The board has established an Audit and Risk Committee ("ARC") and a Nomination and Governance Committee ("NGC") each of which is entirely composed of non-executive directors.

The committee commissioned a review of the club's governance structure to determine whether it is effective and remains fit for purpose. The review was carried out by the managers and overseen by a working group consisting of the club chairman and the chairmen of the club's subsidiary companies. As a result of the review a number of changes were made to the governance structure of the club, one of which was the disbandment of Standard UK's Nomination and Governance Committee with effect from 21 October 2021. Any matters that fell within the remit of that committee will in future be considered by the board.

##### a) The Audit and Risk Committee is delegated duties relating to:

- Financial reporting;
- Internal controls and risk management systems;
- Whistleblowing and fraud;
- Internal audit – monitoring of IA effectiveness; make recommendations on the appointment/removal of the head of IA; consider the remit and resources of IA; assess the annual audit plan; review reports from IA; monitor the managers' responsiveness to findings and recommendations of IA; meet with IA without management (at least annually);
- External audit – make recommendations on the appointment, re-appointment and removal of the external auditor, oversee the relationship with the external auditor (including, inter alia: fees, independence and non-audit work);
- Solvency of Standard UK;

- Reporting to the board on its proceedings after each meeting, making appropriate recommendations and reporting to members in the annual report.

**b) The Nomination and Governance Committee until its disbandment on 21 October 2021 had the following delegated duties:**

- Identification and recommendation of board and committee candidates
- Succession planning and board member rotation
- Ensure fitness and propriety of senior executives, key function positions and board members
- Review and recommendation of directors' fees
- Review and report on the governance structure, policies and practices of the company

**3. Advisory body – the board of The Standard Club Limited**

The board of The Standard Club Limited, the parent company, acts as an advisory body to the board of Standard UK. The board comprises 28 directors, the vast majority of whom are representatives of the member insureds. All the directors of Standard UK are also directors of Standard Club.

The purpose, role and duties of the board are set out in the board policies statement. The board has a schedule of matters reserved for consideration by the board and has established four board committees: Audit and Risk Committee, Nomination and Governance Committee and Remuneration Committee. The Strategy Committee was disbanded on 21 October 2021 as a result of changes made from the review of the club's governance structure. The review considered that the Club's strategy was important to all directors and would fall under the remit of the Standard Club board during an annual Strategy Day.

**a) Audit and Risk Committee (ARC)** – is delegated similar duties to those set out above in respect of the Audit and Risk Committee for Standard UK.

**b) Nomination and Governance Committee (NGC)** – has the following delegated duties:

- Review the governance structure, policies and practices.
- Review of board appointments, succession planning, directors' skills and expertise, directors' independence and re-election of directors.
- Review succession plans for both the club board and managers.
- Lead the board's periodic self-assessment process.
- Evaluate the performance and effectiveness of the managers pursuant to the management agreement and the performance of Charles Taylor pursuant to the long-term services agreement;
- Review, for consideration by the board, the management costs.

**c) The Strategy Committee**, until its disbandment on 21 October 2021, had the following delegated duties:

- Consider and make recommendations on the strategy to be adopted;
- Review the performance of Standard UK in meeting its strategic objectives;
- Review Standard UK's business environment and make recommendations arising from developments therein;
- Consider and make recommendations to the board on Standard UK's business plan;
- Consider new strategic initiatives, alliances and potential mergers; make decisions on strategic opportunities where necessary, between board meetings, in accordance with Standard UK's business plan as authorised by the board;
- Consider matters relating to the International Group and reinsurance market.

**d) The Remuneration Committee** is delegated to assess the appropriateness of the remuneration policy to ensure that it is aligned with the club's interests, including:

- assessing the appropriateness of the Group remuneration policy to ensure that it is aligned with the club's interests.
- assessing the remuneration of the chairman, deputy chairmen, chairmen of subsidiary boards/committees and non-executive directors;
- remuneration of executive directors and officers of the club including senior management with regulatory functions;
- ensure that contractual terms of executive directors and officers of the club are appropriate;
- ensure relevant statutory and regulatory provisions regarding remuneration are fulfilled;
- appointment and oversight remuneration consultants.

In addition, a 'Chairman's Group', comprising the chairmen and deputy chairmen of the Standard Club, Standard Asia, Standard Ireland and Standard UK, the chairmen of each committee, and a past chairman, reviews the affairs of Standard UK with the managers between board meetings.

#### **4. Delegation of responsibilities and allocation of functions**

##### **a) Delegation of day-to-day management**

The day-to-day management of the Standard Club and its subsidiary companies (including Standard UK) is delegated to the managers by virtue of a management agreement and associated intragroup services agreements.

##### **b) Management Agreement**

The management agreement and the related intragroup agreement sets out the terms upon which the managers provide management services to Standard Club. The management agreement was amended to accommodate the transition to the new operating model in August 2021. The club manages its intragroup services via its management agreement and associated intragroup services agreements of the management companies, which are the basis of support provided by the management companies to the relevant insurance companies.

##### **c) Long term services agreement and Key Performance Indicators**

The outsourced services provided to Standard Club by Charles Taylor are subject to a Long-Term Services Agreement (LTSA) which forms part of, and is subject to, the Management Agreement. A Service Level Agreement (SLA) sets out the key performance indicators (KPI's) for Standard UK's success, including tonnage, premium income, free reserves, underwriting result, investment result, financial ratios, member satisfaction, and implementation of the business plan.

In addition, the managers' performance is assessed with regards to delivery against approximately fifty service requirements, and with regards to management costs.

The Standard Club Nomination and Governance Committee and the board of Standard UK review the managers' performance on an annual basis.

##### **d) Oversight of the outsourced function**

The Standard Club COO is responsible for overseeing the performance of the outsourcing arrangements with the managers and the performance of other outsourced activities with respect to Standard UK in accordance with the requirements of the Senior Insurance Managers' Regime and EIOPA Guidelines on Systems of Governance.

##### **e) Standard Club UK Management Responsibilities Map**

Standard UK has approved a management responsibilities map which sets out the Senior Managers and Certification Regime (SMCR) Functions and key function holders identified by the board. The management responsibilities map, was, until 21 October 2021, reviewed by the Nomination and Governance Committee at each meeting, this review is now carried out by the board. Recommendations in respect of enhancements or confirmation of its continuing appropriateness are made to the board by the managers.

##### **f) Executive management arrangements**

The day-to-day management of the Standard Club, including Standard UK, is led by executives who are members of the executive committee of the managers. The membership of executive committee comprises the group chief executive officer, each of the group chief executive officer's direct reports, and senior colleagues who report into the group chief executive officer's direct reports. The head of internal audit, whilst not a member, attends meetings of the committee.

As well as the executive committee, the following committees have been established in order for the senior managers to discharge their responsibilities and manage the business day to day:

- Claims committee
- Discretionary claims committee
- Finance committee
- IT steering committee
- Risk committee

- Underwriting committee
- Portfolio management committee
- Reinsurance review committee
- Reserving committee
- Regulatory committee

Each of the committees has prescribed terms of reference setting out the roles, duties and reporting requirements.

The board has established a Board reporting policy, pursuant to which the managers are required to provide the board with a full and complete overview of the affairs of Standard UK, covering all key areas of its operations in sufficient detail to allow the board to properly discharge its responsibilities.

**5. Training** – An annual programme of training is provided to the board and its committees, key function holders and other staff.

**6. Internal audit and compliance reviews** of management functions are carried out to assess performance against KPIs.

#### **7. Appraisal process / board evaluation**

As part of Standard UK's governance processes, and in line with good corporate governance practices, Standard UK conducts a periodic board and committee evaluation.

The purpose of the evaluation is to help the board, committees and individual directors perform to their maximum capabilities, and:

- assess the balance of skills within the board / committee;
- identify attributes required for any new appointments;
- review practices and procedures to improve efficiency and effectiveness;
- consider the effectiveness of the board / committee's decision-making processes;
- recognise the board / committee's outputs and achievements.

In 2020 the board carried out an evaluation of its effectiveness of the board during the first six months of the pandemic. Each member of the board was requested to complete a detailed questionnaire focusing on the effectiveness of the board, the organisation of the board and committee meetings and the running of I meetings. This evaluation indicated that the board and its committees was operating effectively.

The Nomination and Governance Committee makes recommendations to the board in respect of enhancements that it considers desirable following its review of the evaluation results.

As part of the transition to the new operating model, the managers carried out a governance review to determine whether the current governance structure was effective and fit for purpose. The review was overseen by a working group comprising the chairs of Standard Club, Standard Asia, Standard Ireland, Standard Re and Standard UK. It was concluded that the governance structure was effective and fit for purpose but a number of proposed changes to the governance structure were presented to the board and approved. Changes included;

- The creation of an annual Strategy Day. It was considered that strategy was a topic that was of interest to all directors. The Strategy Day would be attended by all Standard Club and Standard UK directors. The Strategy Committee was disbanded and the duties that had previously been delegated to the Strategy Committee would fall to the Standard Club board.
- The size of subsidiary boards (Standard Asia and Standard UK) was to be reduced to provide consistency across the subsidiary boards.

### **Material changes in the system of governance that have taken place over the reporting period**

In light of the announcement that Standard Club is in discussions with North P&I to explore the potential of combining to jointly create a club at the forefront of global marine insurance, changes to the governance structure are anticipated. A dedicated project team, overseen by the Chairman's Group, has been formed to ensure all aspects are managed effectively.



## Remuneration policy and practices

**1. Directors' fees** (including committees) – The Remuneration Committee's terms of reference include the review and recommendation of changes to directors' fees. A review of directors' fees was conducted in October 2020.

**2. Management costs** – The managers submit a proposal in respect of budgeted management costs (both in-house management and outsourced services) for the following year, to the January meeting of the Nomination and Governance Committee, following prior discussion of the proposed budget with the Chairman's Group and Remuneration Committee.

The Nomination and Governance Committee would review the budget proposals and make a recommendation to the board. The Nomination and Governance Committee in reviewing the budget takes account of the fees paid by the other P&I clubs to their respective management companies (both in-house and external).

**3. Remuneration policy** - The Group's Remuneration Committee considers the remuneration policy of the managers across the group to ensure that it aligns with the interests of Standard UK and that it does not promote excessive risk taking. In doing so, it additionally considers the performance rating of the group chief executive officer and members of the senior management team in respect of the previous year. In addition, the Group's Nomination and Governance Committee review the objectives of the group chief executive officer and members of the senior management team for the following year. In addition, the Remuneration Committee considers the remuneration policy of the club. The chairman of each committee reports to the board on the review of the policy.

**4. Summary of the remuneration policy of the managers** – The managers' policy is to adopt and encourage a total view of remuneration, with the reward strategy being to place more emphasis on variable pay and alignment to performance based on the achievement of objectives, rather than to focus on base pay. The total remuneration of the managers' employees consists of annual base salary, a discretionary annual bonus, pension, private medical insurance, group life assurance and group income protection cover.

Annual base salary – this is set within a market rate for the role being performed. The club has agreed an approach to base salary where the majority of roles will be paid between 90 and 100% of the median for the role when benchmarked against similar roles and industries, using data from third party organisations such as Spinnaker and Willis Towers Watson.

Discretionary annual bonus – bonus awards are based upon the employee's performance against a set of objectives during the performance period and are aligned with the interests of the Standard Club and Standard UK. An element of senior management team, including the group chief executive officer's, bonuses are deferred over a period of 3 years.

As Standard UK does not have employees, there are no supplementary pension or early retirement schemes to disclose.

## Material transactions during the reporting period

Standard UK, which is limited by guarantee, has no share capital and is controlled by the members who are also its insureds. Shipowner members enter into insurance contracts negotiated with Standard UK's managers on arm's length terms. The Standard Club until 20 August 2021 paid an annual management fee to Standard UK's managers (of whom one is also a directors of Standard UK and the Standard Club) and had some limited transactions with other Charles Taylor companies as part of the normal course of insurance business. Standard UK has in place a comprehensive quota share reinsurance programme with its fellow group subsidiary, Standard Reinsurance (Bermuda) Ltd ('Standard Re'), whereby 90% of claims (net of external reinsurance recoveries) are recovered from Standard Re and 90% of premium (net of external reinsurance premium) is ceded to Standard Re.

Aside from these there were no other material transactions during the reporting period with shareholders, persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body.

## B.2 FIT AND PROPER REQUIREMENTS

Following the announcement on 29 May 2020, Standard Club (and subsidiaries) concluded the insourcing of management in August 2021. There are four basic groups of roles that can be considered key to the Standard Club (and Standard UK):

- The Non-Executive Directors of the club who act as Chair of the Board, Audit and Risk Committee (“ARC”). The individuals carrying out these roles are all individually approved by the UK regulators and are subject to the individual and senior manager conduct standards;
- Other Non-Executive Directors who do not act as chair of a committee. These individuals are notified to the PRA and FCA but are not reported on the FCA register. Non-Executive Directors who do not perform a prescribed responsibility are subject to the individual standards and a limited number of senior manager conduct standards;
- The individuals employed directly by a subsidiary of Standard Club that perform significant roles for the club and are individually approved by the UK regulators and are subject to the individual and senior manager conduct standards.
- The Head of Internal Audit (a Charles Taylor employee) performs a significant role for the club and is individually approved by the UK regulators and is subject to the individual and senior manager conduct standards.

There is also a skills and knowledge matrix used by Standard UK to ensure that the board has the right combination of skills, knowledge and experience to meet its regulatory obligations and the firm’s strategic and operational objectives.

A Fit and Proper Policy is in place for the Standard Group and describes the objectives, roles and responsibilities and governance around the selection, due diligence and appointment of resources into the key roles. The Fit and Proper Policy is owned by the Board of Directors as a body and by the Standard Club Group CEO as a business owner. The policy is reviewed and approved at least annually.

The Fit and Proper Policy splits the necessary scrutiny into ensuring honesty, integrity and sound reputation, financial soundness of the individual proposed, and competency and capability in the role. The Policy applies to service providers if they hold a key function and is applied by the board’s Nomination and Governance Committee.

The Nomination and Governance Committee oversees that:

- Key role holders are fit and proper at all material times;
- Appointments to key roles are appropriately reviewed;
- Due diligence is exercised in line with the policy when assessing individuals for key roles;
- The board composition in aggregate meets the aggregate needs of Standard UK’s governing body;
- Professional training is available to those individuals in key roles; and
- A clear rationale exists for changes to the senior management team.

## B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

### 1. Overview of Standard UK's risk management system

#### Risk management system

The risk management system is owned and defined by the board. It is designed to ensure that the risk strategy is consistent with the overall business strategy and operates effectively within its documented risk appetite. The risk management system includes classification of risks in the risk register, assessment of risks in terms of likelihood and impact, and identification of key risk controls and indicators for each risk type. Oversight of the risk framework governance is delegated by the board to the ARC, and formal roles, responsibilities and governance of risk are set out in the scope of individual senior management role descriptions, terms of reference of internal oversight committees and the policies and procedures used within the business.

The organisation of the Standard Group includes mechanisms which integrate the risk profile of Standard UK with the wider affairs of the group – for example, through the reinsurance of 90% of the risks of Standard UK to Standard Re. This reflects the ultimate beneficial ownership of Standard UK which resides with members of the Standard Club who are policyholders of either Standard UK, Standard Ireland or Standard Asia. As a consequence, the risk management system for Standard UK considers risk both at a group level and with explicit consideration of the differing nature and view of risk at the Standard UK level.

#### “Three lines of defence” principle

The risk management system follows ‘three lines of defence’ principles widely used within the insurance industry. Management of risk is performed by business units on a day to day basis, supplemented by oversight and review of controls by the risk management function and independent assurance that controls are adequate through testing performed by the internal audit department.

#### Risk management function

The risk management function consists of the risk management department and other members of the executive team involved in oversight of the risk management processes of the business. The risk management department is responsible for co-ordinating the activities of the risk management function and maintaining effective risk management awareness across the business. The risk management department chairs a quarterly risk committee with cross function and division representatives from across the wider Standard Group. It is responsible for making recommendations and ensuring that executive management, as well as the Group and subsidiary boards and sub-committees are kept informed of key risk information and risk issues.

#### Risk strategy and appetite

Risk management strategy is subject to a formal strategic risk appetite statement, which sets out the degree of risk considered prudent to accept in the overall long-term interests of Standard UK's stakeholders. The risk appetite and strategy of Standard UK is explicitly linked with the capital management objectives of the Standard Group, given its mutual ownership and ethos.

The strategic risk appetite statement requires the business to manage its affairs in a manner intended to:

- Reduce the likelihood that it is required to make an unbudgeted supplementary call on its members to an acceptable minimum;
- Target a breakeven underwriting result over the business planning horizon;
- Ensure it maintains delivery of excellent levels of service to members; and
- Ensure the degree of risk to which mutual members subject to supplementary calls are exposed from activities other than core underwriting activities (for example, from investments or fixed premium mutual business) is appropriate and commensurate with the expected benefits.

In addition, the business monitors the level of capital held to ensure it does not exceed that required for the orderly management of its affairs consistent with its mutual objectives, including maintaining its financial strength and external credit rating.

Risks from climate change have been included in the club's risk appetite across key risk areas. The club uses scenario analysis to inform the risk identification process to further understand the short- and long-term financial

risks in our business model. The emerging risk framework monitors physical, transitional and litigation risks from climate change and a cross-divisional working group inputs into the risk management framework. The club continues to look at ways that it can further develop its framework in relation to climate change and has identified the need for industry wide common metrics to facilitate meaningful targets and a deeper understanding of the challenges facing our members.

### **Risk governance**

The ARC and board review Standard UK's risk appetite and risk policies at least annually in respect of the major business risks facing the Standard Group, their potential impact, and the systems to manage and mitigate those risks. During the year the board and committee have reviewed the club's key risk indicators and have adjusted them in light of current market conditions.

Responsibility for day-to-day management of risk is the responsibility of the managers' executives as part of the performance of their roles, as set out in individual job descriptions, defined processes and procedures identifying levels of authority within the management structure, and risk policies. The Standard Club operates an internal managers' risk committee led by the Chief Risk Officer and including key senior managers, which monitors and provides oversight of risk and capital issues across the business. The risk committee is responsible for making recommendations and ensuring that the executive management committee is kept informed of issues, and matters of concern are escalated to the ARC.

Standard UK monitors its exposures against the risk appetite on an ongoing basis using a system of key risk indicators and tolerances that are reported to the board at each meeting through the risk overview presented by the Chief Risk Officer. The risk tolerance is the variance around the risk limit that Standard UK may operate in before the development of a remediation plan is required to be prepared by the managers. Breaches of risk limits require immediate escalation to the board for their consideration of remediation actions.

### **Management information**

Tools, models and systems have been developed in order to provide qualitative and quantitative management information for use in risk management decisions. In particular, the Standard Group makes use of its internal model in order to quantify the levels of aggregate risk carried at both group and Standard UK level and to monitor whether levels of risk are within strategic risk appetite. Detailed measures of Standard UK's appetite for risk have also been established, with key risk indicators reported at each board meeting against pre-set risk limits and tolerances, for example with respect to key financial ratios, maximum exposure to individual investment asset classes, maximum exposure to 3<sup>rd</sup> party counterparties and liquidity requirements. These key risk indicators have recently been reviewed in detail by the board and updated in light of the market conditions facing Standard UK.

### **Policies and procedures**

Policies and procedures are in place in respect of the material risks of Standard UK and the Standard Group which, amongst other matters, set out the roles and responsibilities with respect to the management of risk. Specific processes and procedures are in place to manage risks arising from the business. These are designed to ensure that transactions and decisions are made by individuals with appropriate levels of experience and authority, with consideration of relevant risks.

## **2. Implementation and integration of Standard UK's risk management function**

### **Strategy and appetite**

The risk management function provides significant input into the design and implementation of risk appetite which assists in setting the strategy of Standard UK, for example with respect to the key underwriting and investment risks.

The risk management department co-ordinates the monitoring of whether Standard UK is likely to, or has, exceeded risk appetite and assists in making decisions in those eventualities. The assessment is reviewed by the managers' risk committee on a quarterly basis.

### **Risk assessment and control effectiveness reviews**

The risk management department has implemented a rolling programme of reviews to assess business risks and the effectiveness of mitigating controls in place. This programme is designed to cover all areas of risk identified in the risk register at least once a year. These reviews, which are performed in conjunction with each business unit, consider whether controls are designed and operating effectively and ensure that outstanding risk mitigation actions are occurring in a timely manner.

### **Incident reporting and embedding risk management**

There is an emphasis upon continual education of senior management and staff in considering good risk management practice in individual aspects of their roles. The risk management department maintains an incident reporting process which records control failures and “near miss” events and is designed to identify underlying root causes and whether any control improvements can be implemented. Incidents are reported across the senior executive management team and to the board.

### **Use of internal model**

The risk management system and processes are linked to the Standard Club’s internal model. The internal model is used to create the financial projections which form the business plan. Key assumptions used in the model reflect expectations of future insured exposure and premium rate changes, claims frequency and severity trends and investment returns. Assumptions with respect to the degree of uncertainty and volatility arising from risk taking activities are based on a combination of analysis performed by the actuarial function and inputs provided by business units. Internal model assumptions are reviewed by relevant business experts and the ARC. Internal model outputs are a key input into the ORSA process described below, and their uses include assessing levels of risk compared with risk appetite, assessing the adequacy of reinsurance arrangements, and informing pricing and capital management decisions.

## **3. ORSA process**

### **Key elements of Own Risk and Solvency Assessment (ORSA) process**

The ORSA process brings together the key elements of risk, capital and strategy. The ORSA process is performed at both a Standard Group and Standard UK level and the Standard UK ORSA report is approved by the board on (at least) an annual basis. At a group level the Standard Club ORSA report meets the Bermuda regulatory requirement to prepare a Commercial Insurers Solvency Self-Assessment (CISSA) report. Given the financial interconnectedness of the Standard Club and Standard UK by mutual membership and the 90% quota share (QS) reinsurance arrangement, the Standard UK ORSA report should be read in conjunction with the Standard Club ORSA report which is referenced throughout the Standard UK ORSA report.

The ORSA process combines outputs from business strategy and planning processes with the results of risk profile monitoring, stress and scenario testing and outputs from the internal model on aggregate levels of risk. The annual ORSA report consolidates the results of these analyses in a single document in order to provide a coherent view of capital adequacy, risk profile, the effectiveness of the risk management system and key risk mitigating actions required to ensure the business remains within risk appetite.

In addition, each board meeting receives a summarised “Risk Overview” report which sets out the status of key risks to achieving strategic objectives together with actions designed to mitigate these. The current qualitative and quantitative risks to achieving this objective, any mitigating actions and the outlook over the next 12 months are assessed and incorporated into the ORSA process.

The “Risk Overview” also includes an assessment of capital adequacy and an analysis of key risks for the current financial year.

### **Financial information and business plan**

The prior year results used in the financial reporting provide the basis for the first stage of the ORSA and strategic planning processes. The internal model is used to create a business plan over a three-year time horizon including projected levels of free reserves and the potential distribution of outcomes around the central projection. These results are used to review the business plan against risk appetite and amend plans if required.

### **Stress and scenario testing and emerging risk review**

The ORSA process includes a pre-defined set of stress and scenario tests. There is a structured annual process to review potential emerging risks which is designed to identify whether any changing or new risk could have a significant impact on the business risk profile, and whether any consequent actions are required (for example, a new risk mitigating action or set of controls). The significance of new or emerging risks is typically assessed through development of appropriate stress tests.

Climate change represents one of the greatest long-term risks for society and industry, including the insurance industry. The club continues to take a strategic and long-term approach to managing the insurance risks of its members associated with climate change which are considered as part of the governance and risk management framework. Risks from climate change have been included in the club’s risk appetite across key risk areas. The club



uses scenario analysis to inform the risk identification process to further understand the short- and long-term financial risks in our business model. The emerging risk framework monitors physical, transitional and litigation risks from climate change and a cross-divisional working group inputs into the risk management framework. The club continues to look at ways that it can further develop its framework in relation to climate change and has identified the need for industry wide common metrics to facilitate meaningful targets and a deeper understanding of the challenges facing our members.

### **Assessment of capital adequacy and comparison with standard formula capital requirements**

Standard UK is required to hold capital calculated using the Solvency II standard formula methodology. The ORSA report includes an analysis of the level of capital required under the standard formula calculation compared with the equivalent level of capital calculated using the internal model. The broad underlying structure of the standard formula is consistent with the internal model developed in-house based on the evaluation of the business risk profile. As a consequence, changes in the risk profile of the business are expected to cause directionally similar changes in both regulatory capital requirements and the equivalent internal model requirement. While there are some differences in approach and calibration, such as in the treatment of default risk on the 90% quota share arrangement in place with Standard Re, these are not sufficiently material to suggest the standard formula is inappropriate to use for regulatory capital requirement purposes.

### **ORSA report governance**

The Chief Risk Officer is responsible for the preparation of the ORSA report, including ensuring that it articulates a coherent overall strategic plan that fits with the agreed risk appetite. The board reviews and approves the ORSA report. A key expectation is that the ORSA report and Standard Club strategic and business plans are aligned and fit within strategic risk appetite.

### **ORSA process timing**

The ORSA process is continuous, with various elements conducted through the year and integrated into the final ORSA report. For example, internal model outputs are used to inform decisions on potential changes in premium rates for renewals in the following policy year. A draft assessment of capital levels based on internal model outputs incorporating the results of February renewals is provided at the following board meeting.

The ORSA process is closely aligned with the Standard Club business planning and strategy setting process. The Risk Committee and the board review the elements of the ORSA process as they develop through the year and actively participate in the ORSA report and its contents. The Audit and Risk Committee recommends the final ORSA report for approval by the board toward the end of the calendar year. The finalised ORSA is used to ensure that UK regulatory reporting requirements for the ORSA are completed.

Circumstances that could trigger a need for an ORSA review outside the normal timetable, including significant investment, insurance or operational losses, are set out in the ORSA report.

## B.4 INTERNAL CONTROL SYSTEM

Standard UK has a robust system of internal controls which are used to manage the risks faced by Standard UK to within its documented risk appetite. This system covers all functions and all activities undertaken by the managers on behalf of the Standard Club and Standard UK.

Business functions (such as underwriting, loss prevention or claims) own the functional controls for their areas of responsibility. These controls are set out in the risk register and described in procedure manuals, often accompanied by process flows to aid the accurate adoption of procedures by new resources. Formal procedures are in place covering a wide range of business activities, in particular in relation to underwriting and claims activities. For example, formal procedures govern the pricing of new business, performance of member risk reviews by the loss prevention department, issuance of certificates of insurance, approval and payment of claims, and performance of sanctions, anti-money laundering and anti-bribery and corruption due diligence on counterparties prior to transacting business.

The Compliance function, supported by Risk and Finance, covers four principal areas:

- Prudential (ensuring solvency and rating agency capital is maintained; regulatory capital is reported and pertinent waivers are maintained);
- Organisational (training and competence; fit and proper of key roles; general governance, including Conflicts of Interest and Data Protection issues);
- Transactional (regulatory reporting; conforming with licensing requirements; maintaining a complaints register; guarding against Financial Crime and screening against sanctioned entities, regions and cargo);
- Advisory (providing and issuing advice to the business on a range of regulatory issues).

The effectiveness of controls is assessed at least annually by the risk owners identified in the risk register in conjunction with the risk department, and subject to periodic Internal Audit testing and review. Material controls are reviewed by Internal Audit on a three yearly rotating basis and those with a strong regulatory element are also subject to monitoring reviews by the compliance department. Any failure of a material control is recorded as an incident and reported through the executive management structure and to the board.

## B.5 INTERNAL AUDIT FUNCTION

### 1. Implementation of the internal audit function

#### a) Audit Planning

Internal audit ("IA") prepares, in consultation with risk management, compliance senior management and other key users, an annual audit plan ("the plan"), setting out the proposed timing and rationale for IA assignments. The plan is based on a risk assessment, identifying business objectives, all significant activities and key risks to the achievement of those objectives. The plan is reviewed and approved by the ARC and communicated to Standard UK board, and the ARC satisfies itself that the plan addresses all key business risks.

Any significant changes to the plan are discussed with the chairman of the ARC and are communicated to the ARC for approval.

#### b) Audit execution

IA is responsible for planning, conducting, reporting and follow up on audit assignments included in the plan.

Audit fieldwork is conducted in a professional and timely manner .

#### c) Reporting

IA is responsible for reporting to management and, ultimately, the ARC issues relating to the processes and activities identified in an audit assignment including potential improvements to those processes.

A draft audit report is prepared at the conclusion of each audit and facts are agreed with relevant management. Management responses to findings and action plans are agreed, including deadlines and identification of those responsible for implementation.

IA sends a summary of each completed audit to the ARC.

IA is responsible for verifying that audit issues have been completed, and the head of IA is responsible for monitoring the timely action of management to address these findings. Progress is also reported to the ARC.

At each meeting, IA provides to the ARC information on the status and results of the annual audit plan. IA also provides regular reports on IA's compliance with its key performance requirements. Periodically IA reports on feedback obtained from key business users on its performance and effectiveness.

#### **d) Interaction with other control and assurance activities**

IA liaises on an ongoing basis with the Charles Taylor (CT) group head of assurance, the club CRO and other parties as appropriate to ensure optimal audit coverage to the club and CT and avoid unnecessary duplication of effort.

IA also maintains regular contact with all parts of the business at a senior level to ensure continued understanding of the business, cooperation between the business areas and IA and awareness of plans and strategy that may affect the audit universe and audit activity.

Internal and external audit activities are coordinated as far as practicable to ensure adequate audit coverage and to minimise duplication of effort. This includes liaison with external auditors on a periodic basis to achieve these objectives.

Access to IA programmes, working papers and reports are made available for review by the external auditors.

#### **e) Resources**

The head of IA maintains sufficient and appropriately skilled audit personnel to implement the audit programme, either internally within the audit team or externally through the use of specialist resources.

#### **f) Authority and access**

IA's responsibilities (so far as Standard UK is concerned) are defined by the ARC, a subcommittee of Standard UK's board of directors.

IA is granted full, free, and unrestricted access to any and all records, information, physical properties and personnel relevant to any function or area within Standard UK and CT (including where such information is held by third parties). IA ensures confidentiality is maintained in respect of all information and records obtained in the course of performing its duties.

## **2. Independence and objectivity of the internal audit function**

### **Objectivity and independence**

IA is independent of the activities that it audits, and its auditors are objective in performing their work. IA, while consultative in approach, is free from interference in determining the scope of internal auditing, performing work and communicating results. In summary, IA is impartial, unbiased and avoids conflicts of interest.

To ensure independence, IA is directly accountable to the chairman of the ARC and has unfettered access to the chairman of Standard UK board. The IA function is an outsourced function and operationally managed by Charles Taylor.

The ARC reviews the scope and nature of the work performed by IA to confirm its independence and objectivity.

## B.6 ACTUARIAL FUNCTION

The Chief Actuary has responsibility for the actuarial function, which:

- a) contributes to the effective implementation and embedding of the risk management system, in particular by designing, implementing, updating, testing, running and reporting on the internal model;
- b) calculates and validates the technical provisions;
- c) assists with the underwriting process by devising and maintaining pricing tools;
- d) expresses an opinion on the overall underwriting policy;
- e) uses the internal model to compare proposed reinsurance arrangements;
- f) expresses an opinion on the adequacy of current reinsurance arrangements;
- g) reports to the senior management and the board on the reliability and adequacy of actuarial calculations; and
- h) liaises with the external auditors to assist with their annual independent assessment of the technical provisions; and
- i) provides an opinion to regulators on the adequacy of the respective group regulated entities technical provisions.

The actuarial team comprises three qualified actuaries, two trainee actuaries and a data scientist. The team sits within and works closely with the finance team, which aids access to, communication of and understanding of the data and outputs used by and produced by the actuarial team.

The Chief Actuary reports to the board or its committees four times a year on subjects that as a minimum include the actuarial function reporting cycle, which comprises the setting of GAAP technical provisions, the conversion of GAAP technical provisions to a Solvency II basis, an opinion on the underwriting policy, an opinion on the reinsurance arrangements, and a description of how the actuarial function has contributed to the risk management system during the year (including use of Standard UK's internal model).

## B.7 OUTSOURCING

### Outsourced management of the business

The day-to-day management of the Standard Group was previously outsourced to a club manager, Charles Taylor. On 29 May 2020 the Standard Club and Charles Taylor announced that the management of the Club would be taken in-house, this project concluded in August 2021. As a result, Standard UK is managed by a group management company, Standard Club Management (UK) Limited, and other related group management companies ("managers").

The club manages its intragroup services via its management agreement and associated intragroup services agreements of the management companies, which reflect the division of support provided by the management companies to the relevant Standard Club entities, including Standard UK. The performance of outsourced managers is formally reviewed by the NGC at least annually against service level agreements detailed within the management agreement which governs the outsourced relationship. The board also exercises oversight of the performance of the managers through the regular reporting provided by the various function heads at each meeting of the board and its committees, through reports provided by the key functions (finance, underwriting, claims, actuarial, risk, compliance and internal audit) and through regular discussion between board members and executives.

Charles Taylor continues to provide material outsourced services to the Standard Club through Charles Taylor Insurance Services Limited who procures performance of agreed activities from other Charles Taylor entities. These activities include:

- Technology services;
- Premises / facilities management services;
- Internal Audit;
- Regulatory / Finance Support (Bermuda)

Investment Management services are provided to the Standard Club through Charles Taylor Investment Management.

The club maintains an outsourcing register containing key information on materiality, ownership, governance, value, legal entity alignment, contractual parameters, term, due diligence, vendor risk and contract management.

### **Outsourcing policy**

An Outsourcing Policy is in place which considers the approach to be taken in the event that the managers themselves outsource activities that would otherwise be performed directly by them.

The outsourcing policy sets out a number of requirements with respect to outsourcing arrangements including:

- No activity or function reserved for the Board may be outsourced. In addition, if the function or activity is considered critical or important (for example, insurance product design and pricing, performance of key functions such as actuarial), the Board must authorise any further outsourcing arrangement proposed by the managers.
- Notification of material outsourcing arrangements to regulators where required.
- Criteria which must be considered in selecting a new outsourced provider or renewing an existing contract, including the ability of the provider to provide services in a manner that will not breach risk appetite and will meet business continuity standards and regulatory requirements.
- Prescribed elements to be included in written contractual arrangements.
- Contingency plans in the event the service provider is unable to deliver an adequate level of service or seeks to terminate the outsourced arrangement.

## **B.8 ANY OTHER INFORMATION**

### **Adequacy of the System of Governance**

Standard UK has assessed its corporate governance system and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of Standard UK. In light of the transition to an in-house management structure from August 2021, the board and managers have reviewed and assessed the governance structures of the club. A working group comprising the chairmen of the club and each subsidiary was created to oversee the review. The review concluded that the club's governance structure remains fit for purpose, with appropriate forums to provide clarity of decision making, roles and responsibilities and an appropriate oversight of management and operations.



## C. RISK PROFILE

### C.1 UNDERWRITING RISK

#### 1. Material underwriting risks

The underwriting risk of Standard UK arises from two main categories of insurance product which it provides to its members:

- i) *“Poolable” P&I cover* – being protection and indemnity insurance which covers members against third party liabilities arising from their shipping activities.

“Poolable” P&I represents covers which qualify for inclusion within the International Group (“IG”) pooling agreement. The IG is made up of 13 principal mutual P&I clubs which are owned and controlled by shipowners representing approximately 90% of the world’s ocean going ship tonnage. Each club (including Standard UK) pools losses in excess of a \$10 million per claim retention, with losses in excess of this amount being shared between all clubs using a formula based on the historical loss record of each club and the tonnage and type of ships entered into the pool. The IG has entered into a number of collective reinsurance arrangements with the commercial reinsurance market, which takes a progressively greater share of individual losses as claim size increases. Losses in excess \$2.1 billion (termed “overspill claims”) are re-pooled, however the IG reinsurance arrangement provides an additional \$1 billion reinsurance for a single claim. In practice no claim has yet arisen which breaches the limits of the IG reinsurance programme, with the largest individual poolable claim to date being \$1.5 billion of third party liability costs arising from the wreck of the Costa Concordia.

Poolable P&I cover is a variable premium product, meaning that Standard UK may make supplementary calls on members if required to meet unanticipated financial losses. All clubs which are members of the IG must be mutual associations capable of levying additional premiums on their members in the event that an overspill claim occurs. In practice, as set out in Standard UK’s risk appetite statement, the business seeks to minimise the possibility that such unbudgeted supplementary calls could occur.

As a consequence of the pooling arrangement, Standard UK is subject to underwriting risk arising from both its own policyholders and through its share of other P&I club’s poolable claims (“inwards pool” claims).

- ii) *“Non-pool” business* – being protection and indemnity insurance where the nature of the underlying activity does not qualify for inclusion in the IG pooling arrangement (primarily relating to offshore energy activities), or liability cover for ship charterers, or ancillary covers such as legal expense costs relating to shipping disputes.

In addition to the benefit provided by the IG pooling agreement, Standard UK benefits from:

- Specific per claim reinsurance for non-poolable risks provided by commercial reinsurers.
- A comprehensive 90% quota share of underwriting gains and losses including operating expenses provided by Standard Re, the internal reinsurer of the Standard Group.

#### *Categorisation of types of underwriting risk*

At a high level, underwriting risk is categorised between premium risk, being the risk that premiums will not be sufficient to meet all claims covered and associated expenses, and reserve risk, being the risk that case or actuarial reserves will be inadequate in covering known or unreported losses. These risks are further considered in terms of:

- Inappropriate insurance strategy, including reinsurance strategy;
- Ineffective implementation of underwriting strategy;
- Ineffective implementation of reinsurance strategy;
- Ineffective claims management, leading to inappropriate case reserve and settlements;
- Inadequate actuarial reserving.

## 2. Material risk concentrations and changes in risk profile over the reporting period

Underwriting risk has decreased since February 2021 from \$12.7 million to \$12.25 million in the standard formula as reserve risk has reduced (due to the run-off of historic EU claims relating to business written before February 2019).

More than 90% of net underwriting risk arises from poolable P&I cover, driven largely by Standard UK's exposure to its own and other clubs' pool claims. While Standard UK monitors other types of underwriting risk concentration, including ship type and membership, these represent less significant sources of concentration risk. P&I cover provides liability cover for ships which are trading on a global basis, therefore is not significantly exposed to geographical risk concentrations, for example, compared with insurance of static property or similar asset-based covers. As a consequence, the primary drivers of underwriting risk relate to:

- The number and severity of large poolable P&I claims including inward pool claims.
- The potential for significant adverse reserve development arising from existing claims or new types of previously unreported liability.

## 3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage underwriting risk, including:

### *Premium risk*

- Board and senior management review of underwriting results, drafting of strategy and business plans;
- Reinsurance mitigation strategy review and approval by the board in line with risk appetite;
- Comprehensive and high quality reinsurance programme;
- Underwriting and reinsurance authorities, approvals, processes, reporting and review;
- Use of exposure based pricing tools for new business;
- Activities of the loss prevention department, including ship surveys, member risk reviews, and application of coverage warranties, exclusions or non-renewal of members where ship operating standards are considered deficient;
- Monitoring for undue concentrations of risk and acceptability of results consistent with risk appetite.

### *Reserve risk*

- Claims case management: authorities, approvals, processes, reporting and review;
- Systems workflow in place to assist management of claims cases;
- Claims peer review, feedback and management information;
- Actuarial reserving: modelling processes, reporting and review;
- Board review and approval of key reserving output.

The comprehensive 90% quota share reinsurance of Standard UK by Standard Re substantially mitigates the economic impact of both premium and reserve risk.

## 4. Stress and scenario testing

The key stress tests identified with respect to underwriting risk relate to:

- Premium risk – a significantly higher than historic average number of large pool claims in the current policy year.
- Reserve risk – reserve deterioration across all years of account due to a systemic reserving issue.

The following underwriting scenario tests were also performed in 2021, taking into account emerging risks such as climate change and cyber risk:

- Overspill claim relating to a collision of an oil tanker with a wharf and an adjacent shopping complex in the lower Mississippi River.
- Industry bankruptcies and consolidation.
- Tsunami at a busy Asian port.
- COVID-19 pessimistic scenario.

- Suez Canal closure pessimistic scenario.
- Cyber-attack on a vessel in the Malacca Straits.
- Heavy weather container collapse.
- Climate change decarbonisation scenario.
- Climate change Arctic oil spill.

By their nature, some of these scenarios are extreme in nature and would trigger the club's recovery plan at group level. Standard UK is assessed as being within its risk appetite in relation to the above scenarios which fall within a 1 in 200-year return period.

## 5. Sensitivity analysis

Standard UK is protected from underwriting volatility through its comprehensive external and internal reinsurance programmes (in particular the 90% quota share with Standard Re).

For example, while a 5% increase in Standard UK's gross loss ratio would reduce the underwriting result by \$5.2m (2021: \$5.0m reduction), net of all reinsurance the impact would be \$0.4m (2021: \$0.4m).

## C.2 MARKET RISK

### 1. Material market risks

Market risk relates to the risk of losses on assets held to pay future claims and operating expenses, and losses on surplus assets held for solvency purposes.

The Standard Club's investment strategy has been developed with the following objectives:

- To preserve capital for the payment of Standard UK's claims and other liabilities by limiting risk in the portfolio
- Within the risk tolerance, to maximise the overall returns as measured over rolling three-year periods.

#### *Prudent person principle – management of assets*

The Standard Club invests in a range of assets and instruments whose risks it can sufficiently identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency. All assets are invested to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Sufficient assets are localised to ensure their availability. Assets are invested in the best interest of all members under the direction of the investment director.

As a consequence the asset allocation strategy in place reflects a relatively cautious investment risk appetite for Standard UK, focussing on maintaining a portfolio which broadly reflects the liability profile in terms of currency and duration and consists of a diversified range of investments primarily made up of high quality bonds or similar fixed income instruments. More volatile investments including equities are held within Standard UK, however the majority of the Standard Club's higher yield and more volatile assets are held within the Standard Re, which also holds the majority of surplus assets held across the group.

#### *Categorisation of types of market risk*

Market risk is considered in terms of three categories:

- Inappropriate investment strategy;
- Ineffective implementation of investment policy, strategy or investment rules;
- Ineffective management of investment counterparties.

### 2. Material risk concentrations and changes in risk profile over the reporting period

As a consequence of the asset allocation strategy and consequent portfolio diversification, material asset risk concentrations are minimised. At the year end the average duration had been reduced to 2.9 years (2021: 3.8 years) to reduce the risk of an increase in interest rates.

Under the standard formula, market risk has decreased over the reporting period, from \$10.5 million at February 2021 to \$8.4 million in February 2022.

### 3. Risk mitigation techniques

A number of risk mitigation techniques are used to manage market risk, including:

- The board reviews and approves investment strategy;
- Clear investment guidelines and rules are implemented and monitored, including counterparty limits;
- Investment guidelines require investing widely and in different asset classes to diversify the portfolio;
- Asset–liability matching processes are in place;
- Foreign-exchange matching processes are in place;
- Interest rate risk exposure is measured and controlled through regular review of the appropriate duration;
- Levels of investment risk are monitored using “Value at Risk” techniques which must remain within risk appetite.

### 4. Stress and scenario testing

Investment loss stress tests and scenarios, including consideration of historic scenarios and an inflation shock scenario, are regularly monitored at Standard Club level. Standard stress tests include:

- Bond price falls;
- Equity market falls;
- Currency fluctuations;
- Credit spread increases;

Standard UK is assessed as being within its risk appetite in relation to the above stress tests and scenarios.

### 5. Sensitivity analysis

Standard UK maintains a conservative investment portfolio with approximately 96% (2021: 88%) of investment assets held in fixed income assets.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 150 basis points in bond yields would result in a deficit for Standard UK of \$4.0m (2021: \$3.0m).

Standard UK is exposed to equity price risk as a result of its holdings in equity investments held in collective investment undertakings. Sensitivity analysis for equity price risk illustrates the effect of changes in equity market indices on the value of the investment portfolio. A 10% decrease in equity values would be estimated to have decreased the surplus before tax and reserves at the year-end by \$0.3m (2020: \$0.6m).

Standard UK is exposed to currency risk in respect of liabilities under insurance policies denominated in currencies other than US dollars. The most significant currencies to which Standard UK is exposed are sterling and the euro. Standard UK seeks to manage this risk by constraining the deviation of the currencies of the assets from the estimated currencies of the liabilities. Standard UK also uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks.

At 20 February 2022, had sterling strengthened by 10% against the US dollar with all other variables held constant, the surplus for the year would have been nominally higher (<\$0.1m) (2021: \$0.2m lower). Had the euro strengthened by 10% against the USD dollar the surplus for the year would have been \$0.7m higher (2021: \$2.2m higher).

## C.3 CREDIT RISK

### 1. Material credit risks

Credit risk relates to the risk that another party fails to perform its financial obligations or performs them in a timely manner. Counterparty risk arises in relation to members, guarantors, other clubs, reinsurers, investments and deposits. Under the risk management system investment counterparty risk is considered within the market risk category and intra-group reinsurance counterparty risk is considered within the group risk category. Therefore, the most significant credit risks arise from external reinsurers, banking counterparties used to hold cash and the premium balances due from members of Standard UK.

A diverse range of high-quality external reinsurers are used on the reinsurance programme protecting Standard UK's portfolio.

Significant amounts of money are held with the custodian bank as money flows in respect of premiums, claims and management fees. The flow is carefully monitored and managed so as to not to exceed tolerance levels.

There are a number of credit controls over members that fail, allowing for Standard UK to offset potential losses. Standard UK continues to closely monitor the credit worthiness of members and collect premiums in good time.

## **2. Material risk concentrations**

External reinsurance is placed with a range of highly rated reinsurers, with the highest single concentration being due from underwriters at Lloyd's. The potential overall concentration levels are considered when placing reinsurance.

The internal group quota share reinsurance with Standard Re comprises the largest single counterparty and is considered under C.6 other material risks.

Standard UK has a small number of key banking relationships for handling cash receipts and payments, which may result in material amounts cash accumulating for short periods of time, for example when member premium payments are received on key due dates.

Standard UK seeks to maintain a diversified member base, reducing the credit concentration risk to any one member. Given the significant risk mitigation in place, member credit risk is considered to be relatively low.

## **3. Risk mitigation techniques**

A number of risk mitigation techniques are used to manage reinsurer and IG pool reinsurance credit risk, including:

- Reinsurance is placed with many different reinsurers, reducing the potential impact of individual reinsurer default;
- The reinsurance programme is reviewed and approved by the board on an annual basis;
- All reinsurers are required to hold a credit rating of A- (Standard & Poor's or equivalent) or better;
- The board receives regular reports on the amounts recoverable from reinsurers;
- The board receives regular reports on the top 10 potential exposures by reinsurer;
- There is a clear risk appetite and thresholds set around the concentration of exposure with any single reinsurance counterparty;
- Should a reinsurer default on its obligations the loss to Standard UK would be mitigated by the comprehensive 90% quota share provided by Standard Re, which includes losses arising from reinsurer default within its coverage;
- The IG pooling agreement includes mechanisms to protect member clubs in the event of the default of one of its members, including securitisation of pool recoverables through "Hydra", the IG captive insurer, and minimum solvency and rating requirements for P&I clubs to be included within the pooling agreement;
- The IG provides guidance to the brokers on the GXL programme around counterparty and concentration risk, including having no reinsurer with a rating lower than S&P A-, a threshold of 15% participation for any one reinsurer of the overall programme and minimum requirements around reinsurer shareholders' funds.

Risk mitigation techniques used with respect to Standard UK's banking relationships include:

- Maximum counterparty limits with any single banking entity, which may not exceed \$50 million and may not exceed \$35 million for more than 5 working days;
- Frequent monitoring of bank credit rating.

Risk mitigation techniques used with respect to Standard UK's exposure to outstanding member premium balances include:

- Under the terms of coverage, member claims may be offset against outstanding premiums.
- Overdue premium amounts are monitored and reported to the managers executive committee on a monthly basis.
- Member cover can be cancelled for non-payment of premium.

- Guarantor security is monitored by the managers' finance committee.

#### **4. Stress and scenario testing**

A regular stress test is performed which considers a significant/exceptional non-pool claim and the largest reinsurer simultaneously defaults. Assumes 15% is the exposure of the largest reinsurer (this is the limit to which any one reinsurer can participate on programme).

Standard UK is assessed as being within its risk appetite in relation to this stress test.

#### **5. Sensitivity analysis**

Standard UK's principal counterparty exposure is to its reinsurers. At 20 February 2022 the reinsurers' share of claims outstanding (on a GAAP basis) was \$515.5m (2021: \$561.3m), of which \$217.3m (2021: \$239.4m) was from external reinsurers, and \$298.2m (2021: \$321.9m) was from Standard Re.

A 10% default on its external reinsurers' share of claims outstanding would have a gross impact of \$21.7m (2020: \$23.9m) on Standard UK, however as any such default would be 90% reinsured by Standard Re (and any default on the International Group's excess of loss reinsurance would be pooled amongst the International Group clubs), the net impact would be \$2.2m (2021: \$2.4m).

The board reviews the solvency position of Standard UK and Standard Re regularly at board meetings and through its ORSA and has determined that the risk of default of Standard Re is extremely remote (more remote than a 1 in 200 event).

## **C.4 LIQUIDITY RISK**

### **1. Material liquidity risk**

Liquidity risk is the risk of failure to maintain sufficient funds to meet obligations as they fall due, for example due to the lack of marketability of investments, inability to make reinsurance recoveries in a timely manner, and incorporating the risk that additional funding may only be secured at excessive cost.

Given the high level of liquid investments held and mechanisms in place to enable quick access to reinsurance recoveries, the risk is considered to be very low.

### **2. Material risk concentrations and changes in risk profile over the reporting period**

Investment assets are administered by a single asset custodian. While investments are required to be held in segregated accounts, there is a risk that in the event of the failure of the custodian there may be delays in accessing funds in a timely manner.

### **3. Risk mitigation techniques**

A number of risk mitigation techniques are used to manage liquidity risk including:

- Asset-liability management controls are in place, which assist in Standard UK's ability to manage liquidity;
- The investment rules require a significant proportion of the portfolio to be held in easily realisable assets such as highly liquid sovereign debt;
- Standard UK regularly reviews the time period required to liquidate the investment portfolio;
- Principal reinsurance arrangements allow for short period recovery of all significant claims payments due;
- A monitoring process is in place to identify short term potential cash needs in the business;
- Cash flow projections are reviewed and updated regularly to ensure the most efficient use of cash resources. The likely cash outflows in relation to specific large claims are projected and kept under review.

### **4. Stress and scenario testing**

A liquidity issue arising from the failure of the asset custodian holding Standard UK's assets, causing significant delays in receipt of funds owed, is considered to be very remote and within risk appetite.



## C.5 OPERATIONAL RISK

### 1. Material operational risk

Operational risk is the risk of losses incurred as a result of inadequate or failed internal processes, people and systems, or from external events (including legal risk).

Operational risk is considered in terms of the following categories:

- Ineffective Management of Legal and Regulatory Requirements
- Ineffective Management of People Risk and Culture
- Ineffective Cyber Management
- Inadequate Risk Management
- Ineffective Management of Systems
- Poor Data Management or Application
- Ineffective Governance

### 2. Material risk concentrations and changes in risk profile over the reporting period

Standard UK has experienced an increase in direct and indirect cyber-attack activity seeking to extract money through fraudulent means, with the ambition and sophistication of such attacks observed across the wider insurance industry increasing. The managers continue to invest in improving controls over this growing and changing threat. A cyber risk dashboard has been developed to monitor and assess on an ongoing basis the overall cyber risk status.

The development of the impact of Covid-19 has been monitored closely since March 2020. Full business continuity contingency plans were activated and proved that the club can continue to operate in the event of a serious prolonged incident, such as the present pandemic. Business records and documentation are stored electronically, are regularly backed-up and are accessible remotely from anywhere in the world. Personnel in each of the managers' global offices successfully transitioned to working from home and the club has been able to continue to provide the same level of service to its members. The impact of Covid-19 on the club's operational risk has also been considered and management are focussed on monitoring people and culture risk whilst the business operates under a work from home basis. Controls have been reviewed to assess the operational impact on the club.

### 3. Risk mitigation techniques

A number of risk mitigation techniques are in place including:

- Board oversight of service level agreement ("SLA");
- Maintaining professionally staffed management functions;
- Investment to support recruitment, retention and development of good quality resources;
- Monitoring systems issues, accounting for the need to achieve service objectives and protect data;
- Business continuity planning, including both physical business continuity planning, disaster recovery processes and contingency plans in the event of failure of the outsourced manager;
- Requirement for the managers to maintain errors and omissions insurance;
- Regulatory compliance monitoring;
- A suite of detection, prevention and recovery controls to protect against malware have been implemented and combined with appropriate user awareness;
- A cyber risk dashboard reported on a quarterly basis to the managers risk committee, which shows a suite of metrics designed to give comfort that cyber related controls are designed and operating effectively. This includes technical IT security controls (e.g. vulnerability scanning, penetration testing results, access).

A system of incident reporting is in place in order to quickly identify operational failings in order that they may be reported upon and improvement actions put in place in order to reduce the risk of reoccurrence.

#### 4. Stress and scenario testing

A range of operational risk stress and scenario tests are performed in order to understand the potential impact of operational issues. The most significant scenarios identified include:

- Rogue chief financial officer.
- Cyber ransomware attack.
- Post-Brexit operational model.
- Climate change activist action.

Standard UK is assessed as being within its risk appetite in relation to the above scenarios.

## C.6 OTHER MATERIAL RISKS

### 1. Group risk

Standard UK is subject to material group risk due to its interdependence with other parts of the Standard Club. For example, Standard UK relies on the strength of the overall Standard Club balance sheet to support its credit rating which represents a key marketing tool, and reinsures 90% of its retained risk with Standard Re, the group internal reinsurer.

The risk for Standard UK is limited as there are consistent policies and procedures across the group. A loss is more likely to manifest in all entities at once and hence arise from one of the other risks.

### 2. Material risk concentrations

The primary exposure of Standard UK arises from the 90% quota share reinsurance arrangement with Standard Re.

### 3. Risk mitigation techniques

A number of risk mitigation techniques are in place including:

- Common directorships across Standard UK and Standard Club;
- Cross-review of Standard Club issues in place at board and management level;
- Right to commute the quota share contract in place with Standard Re at any time, for any reason under the terms of the contract;
- Standard Re has undertaken to advise Standard UK of any material change in their investment rules;
- Standard UK monitors the performance of Standard Asia and the group as a whole;
- Standard UK monitors the forward-looking solvency of Standard Re and the group as a whole;
- Standardised processes, procedures and risk control measures are in place across the group.

### 4. Stress and scenario testing

The Standard Club recovery plan, which was approved in January 2022, considers the impact of stress events on the solvency of the group and details the recovery options open to the club to ensure it remains financially resilient and in compliance with its regulatory capital requirements.

## C.7 ANY OTHER INFORMATION

### CLIMATE CHANGE

Climate change represents one of the greatest long-term risks for society and industry, including the insurance industry. The club continues to take a strategic and long-term approach to managing the insurance risks of its members associated with climate change which are considered as part of the governance and risk management framework. Risks from climate change have been included in the club's risk appetite across key risk areas. The club uses scenario analysis to inform the risk identification process to further understand the short- and long-term financial risks in our business model. The emerging risk framework monitors physical, transitional and litigation risks from climate change and a cross-divisional working group inputs into the risk management framework. The club continues to look at ways that it can further develop its framework in relation to climate change and has identified the need for industry wide common metrics to facilitate meaningful targets and a deeper understanding of the challenges facing our members.

The International Maritime Organization (IMO) reports that maritime transport is responsible for about 3% of global greenhouse gas (GHG) emissions and the IMO adopted an Initial Strategy in 2018 on the reduction of GHG emissions from shipping by at least 50% by 2050, compared to 2008 levels, with an interim goal of 40% emissions reduction by 2030. In June 2021, IMO adopted key short-term measures to be introduced in 2023 aimed at facilitating the identification of industry metrics such as the Energy Efficiency Existing Ship Index (EEXI) and for ships over 5,000 gross tonnes an annual operational carbon intensity indicator (CII) and CII rating. The maritime industry is embarking on a major technology transition driven by the need to decarbonise which will have a significant impact on costs, asset values, and earning capacity as it shifts from conventional to zero or carbon neutral fuels. Standard Club's Alternative Fuel Working Group was established internally to assist members with their transition to alternative fuels, and an Alternative Fuel Advisory Panel has been set up comprising of experts from across the industry to help the Group with wider concerns. A survey by this group is currently assessing the club's members preparedness for the transition and the results will be used to further develop the club's management of this important risk.

### NORTH MERGER

On 14 March 2022, Standard Club announced it was in discussions with North P&I about combining jointly to create a club at the forefront of global marine insurance, acting as a powerful industry voice and uphold the values of the International Group system. A dedicated project team has been established to ensure all aspects of the discussion are managed effectively. Members votes are planned for 27 May 2022.

### COVID-19

As disclosed in further detail at section A.5, Standard UK continues to monitor and respond to the global COVID-19 pandemic.

### UKRAINE/RUSSIA

As disclosed in further detail at section A.5, Standard UK continues to monitor and respond to the events in Ukraine.

## D. VALUATION FOR SOLVENCY PURPOSES

### D.1 ASSETS

#### 1. Valuation and difference between UK GAAP and Solvency II

Standard UK held the following assets at 20 February 2022:

Assets as at 20 February 2022	2022	2022	2021	2021
	UK GAAP value US\$ '000	Solvency II value US\$ '000	UK GAAP value US\$ '000	Solvency II value US\$ '000
Assets	C0020	C0010	C0020	C0010
Deferred tax assets	91	91	-	-
Investments	58,549	83,951	47,814	63,718
Reinsurance recoverables	532,964	513,469	575,661	567,587
Insurance and intermediaries receivables	28,147	3,588	30,745	5,176
Reinsurance receivables	19,193	19,193	18,317	18,317
Receivables (trade, not insurance)	64,026	64,026	38,203	38,203
Cash and cash equivalents	20,580	14,928	16,073	10,409
Any other assets	7,018	6,919	4,250	4,110
<b>Total assets</b>	<b>730,568</b>	<b>706,164</b>	<b>731,062</b>	<b>707,519</b>

Standard UK's valuation and recognition of assets under Solvency II is consistent with the statutory financial statements prepared under UK GAAP. Some assets are reclassified and valued differently under Solvency II and are described below.

- Investments - valued at market price at period end provided by Standard UK's investment custodian, Northern Trust. Standard UK uses Bloomberg to ascertain that investments are traded in active markets and hold no over the counter assets requiring modelling in the portfolio. Some deposits disclosed as cash under UK GAAP (valued at \$5.6m) have been reclassified to investments under Solvency II determined by the deposits' Complementary Identification Code ("CIC"). Accrued interest has been reallocated to investments from any other assets as required under Solvency II.

Within the UK GAAP balance sheet there are forward foreign exchange contracts of which the purchases and sales are reported on a net basis. Under Solvency II, the purchases and sales are reported separately in assets and liabilities respectively. At 20 February 2022, forward foreign exchange contracts were reported under UK GAAP at \$0.1m net of purchases and sales. Under Solvency II, these contracts were reported as \$19.6m assets and \$19.7m liabilities.

- Reinsurance recoverables - reinsurers' share of technical provision valued on a cash flow basis under Solvency II. See section D.2 Technical Provision.
- Insurance and intermediaries receivables - amounts past due for payment by members that are not included in cash-in flows of technical provisions. Valued at cost less any provision for impairment in value. Premium receivable from members, recognised as insurance receivables under UK GAAP, forms part of the best estimate technical provisions under Solvency II. See section D.2 Technical Provisions.
- Reinsurance receivables - amounts past due by reinsurers, both external and internal, that are not included in reinsurance recoverables. Valued at cost less any provision for impairment in value.
- Receivables (trade, not insurance) – amounts past due for payment from other Standard Group companies and non-insurance business partners. Valued at cost less any provision for impairment in value.
- Cash and cash equivalents – valued at the amount held at period end. Foreign currencies are translated at the US dollar rate of exchange at the balance sheet date. Some deposits disclosed as cash under UK GAAP

have been reclassified to investments under Solvency II determined by the deposits' Complementary Identification Code ("CIC").

- Any other assets – valued at cost less any provision for impairment in value. Prepayments and accrued income are included on an accrual basis. Accrued premium income is reclassified to technical provision under Solvency II. See section D.2 Technical Provisions.

During the reporting period, no changes were made to the recognition and valuation bases used or to estimations.

## D.2 TECHNICAL PROVISIONS

### 1. Valuation

The methodology for estimating the reserves required at year end for claims yet to emerge and be paid is:

- Risks are combined into broad groupings that can be expected to develop in a similar fashion to each other but in a different way to other risks;
- The six groupings used for this purpose are Own P&I (including owned/mutual, non-pool and chartered), Inwards Pool, Defence, London, Delay and Asbestos. While asbestos claims are Own P&I claims, they are separated out due to their different development patterns;
- Development patterns are derived from the historical data and applied to the current reported and paid claims. Other loss estimates are calculated using historical data regarding frequency and severity of claims, combined with exposure information. Weighted averages of these estimates are calculated using the Bornhuetter–Ferguson method. Finally, estimates are selected from the preceding methods and adjusted for claims outcomes not reflected in the calculated estimates.

Information on booked and expected premiums is used to determine the allowance for future premiums.

Historical information on expenses is used to determine the charge for expenses in the claims and premiums provisions.

### 2. Valuation in Solvency II and the UK GAAP Financial Statements

UK GAAP	Total	Total
	2022 US\$'000	2021 US\$'000
Technical provisions - gross	548,826	597,227
Technical provisions - net	15,862	21,567

Solvency II	Total	Total
	2022 US\$'000	2021 US\$'000
Best estimate - gross	522,087	579,220
Best estimate - net	8,617	11,633
Risk margin	10,138	10,334
Technical provisions - net	18,755	21,967

The calculation of the technical provisions starts with the GAAP reserves and proceeds in a number of stages:

- *Any prudence in the GAAP reserves is removed to arrive at a 'best estimate' – \$(1.0m).* At the year-end, any potential case reserve redundancy not taken credit for in the GAAP reserves is removed.
- *Time value of money - \$(1.9m).* While the GAAP reserves take credit for the time value of money on the asbestos reserves \$0.8m, under Solvency II discounting is applied to all cashflows for all classes of business.
- *An explicit additional allowance is made for events not in data (ENIDs): large events that have not happened in the past (so are not in the basic reserves) but might happen in the future - \$0.7m.* An ENID loading of 2% is used for past claims, broadly calculated as one event in 15 years of a size that causes a 30% deterioration of reserves – approximately the size of the deterioration experienced by Standard UK due to



asbestos claims from the reserves held in 1978-1980 when asbestos was first identified as a reserving issue.

- *An additional allowance is made for the expenses, both external and internal, of settling the claims - \$1.4m.* A claims handling expense (CHE) allowance of \$1.3m is already included in the GAAP reserves, however the methodology for calculating this allowance differs under Solvency II, because it allows for activities of administration, training, management etc. in addition to pure claims settlement activity coming to \$3,640k, so the difference is adjusted for at this stage.
- *An allowance is made for reinsurance bad debt - <\$0.1m.* The managers use the credit ratings of Standard UK's reinsurers and default rates published by S&P to estimate the cost of reinsurer defaults over the future lifetime of the claims.
- *An allowance is made for member bad debt - \$0.1m.* The managers make an estimate of the shortfall in respect of premiums already due or overdue from members who are in financial difficulty.
- *Reclassification of insurance receivables - \$(24.4m).* Premium debt that is due after the balance sheet date (being the third instalment of poolable premium that is due 9 months after the year-end) is included as a debtor balance in the GAAP balance sheet but forms part of the claims provision on the Solvency II balance sheet.
- *'Premiums provisions' are added, on the same basis, for premiums, claims and expenses in respect of future exposures that Standard UK has already agreed to underwrite - \$(0.4m).* Since the current policy year is expected to make an underwriting loss, the premiums provision is above zero. Discounting is applied using the risk-free curves provided by EIOPA.
- *Risk margin - \$10.1m.* A risk margin is included to allow for the cost of funding the solvency capital required to support the reserves until they fully run off, as follows:

The Solvency Capital Requirement (SCR) for premium risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the premium still to be earned. The SCR for reserve risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the square root of reserves still outstanding. The SCR for counterparty default risk is calculated as at the valuation date and is assumed to decrease in future years in proportion to the reserves still outstanding. The SCR for operational risk is assumed to be 3% of the reserves outstanding at all dates. The risk margin is calculated as the cost of funding the SCR over the remaining lifetime of the liabilities assuming a cost of capital of 6% per annum.

### 3. Reinsurance recoverable

The main elements of the reinsurance recoverable balance are in respect of (a) recoveries on pooled business from the International Group (IG) pooling arrangement, which includes recoveries from pool members and from external excess-of-loss reinsurers; (b) recoveries on non-pooled business from external excess-of-loss reinsurers; and (c) recoveries on the net retained business from a 90% quota share reinsurance arrangement with Standard Re.

There are no material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

### 4. Level of uncertainty

Uncertainty may give rise to a variance around the best estimates indicated within the technical provisions. Uncertainty arises from firstly, the potential of inaccuracy of the point estimate, and secondly the possibility of unexpected adverse experience. The ENID loading applied to both claims and premium provision aims to allow for some of these uncertainties. The likelihood & sizes of uncertainty are based on a combination of internal capital model output and expert judgement. Key areas of uncertainty around technical provisions are as follows:

- *Claims Provision* – uncertainties include large claims developing adversely; asbestos numbers and/or sizes greater than expected; Ogden discount rate change; additional size increase due for example to legislation changes or changes in jurisdictions where claims can be made; changes in development pattern not yet observed in experience; mix of claim sizes escapes reinsurance recovery to an extent greater than expected; and debtor default greater than foreseen.

- *Premium Provision* – uncertainties include claims numbers or sizes higher than expected, due to for example emerging risks, change in mix of business, legislation changes; inflation impacting claims costs greater than expected; and large losses greater in number than expected.
- *Yield curve* - applying to all elements of the Technical Provisions is the risk-free yield curve, which may be subject to a shock change.
- *Risk margin* - uncertainty of the risk margin is driven largely by the SCR results, which in turn are driven by business volume, claims reserves, mix of reinsurers for credit default risk and mix of assets for market risk. As the calculation is based on 6% of future SCRs, any one change would not have large impact on the risk margin.

The most recent analysis of the historical variability of claims notification and settlement suggests there is a 1-in-5 chance of the reserves deteriorating by approximately 5.5% over the following 12 months. Conversely, there is also a 1-in-5 chance of the reserves improving by approximately 5.1% over the same period. Due to the comprehensive reinsurance arrangements in place for Standard UK the net impact of a 5.5% deterioration in the current level of net outstanding claims (\$33.3m) would be \$1.8m.

Standard UK aims to achieve break-even underwriting (with a target 5 year average combined ratio of 100%). Due to the 90% quota share reinsurance with Standard Re any variability around this target at a net level is mitigated. While a 110% gross combined ratio would give an underwriting loss of \$10.5m, at a net basis this would be \$1.1m, limiting the variability around the premium provision assumptions.

## **5. Adjustments not made**

The matching and volatility adjustments referred to in Article 77b of Directive 2009/138/EC, the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC and the transitional deduction referred to in Article 308d of Directive 2009/138/EC have not been applied.

There were no data deficiencies for which an adjustment was necessary.

## **6. Simplifications**

There are no significant simplifications in the Technical Provisions other than those used in the calculation of the risk margin as described in 2 above.

## D.3 OTHER LIABILITIES

### 1. Valuation and difference between UK GAAP and Solvency II

Standard UK held the following other liabilities:

	2022		2021	
	UK GAAP value US\$ '000	Solvency II value US\$ '000	UK GAAP value US\$ '000	Solvency II value US\$ '000
<b>Other liabilities as at 20 February 2022</b>				
Derivatives	-	19,650	-	10,100
Insurance & intermediaries payables	40,324	22,842	18,628	18,628
Reinsurance payables	24,187	24,187	14,920	396
Payables (trade, not insurance)	59,156	59,156	26,972	26,972
Any other liabilities	441	441	1,882	1,882
<b>Total other liabilities</b>	<b>124,107</b>	<b>126,275</b>	<b>62,403</b>	<b>57,979</b>

Standard UK's valuation of other liabilities under Solvency II is consistent with the statutory financial statements prepared under UK GAAP. Liabilities that are reclassified and valued differently under Solvency II are described below.

- Derivatives – Within the UK GAAP balance sheet there are forward foreign exchange contracts of which the purchases and sales are reported on a net basis. Under Solvency II, the purchases and sales are reported separately in assets and liabilities respectively. At 20 February 2022, forward foreign exchange contracts were reported under UK GAAP at \$0.1m net of purchases and sales. Under Solvency II, these contracts were reported as \$19.6m assets and \$19.7m liabilities .
- Insurance & intermediaries payables - valued at cost less any provision for impairment in value.
- Reinsurance payables – within the UK GAAP balance sheet, unearned reinsurance premiums are shown under assets (as part of reinsurers share of technical provisions). Under Solvency II, this amount is netted off against reinsurance payables.
- Payables (trade, not insurance) - valued at cost less any provision for impairment in value.
- Any other liabilities - valued at cost less any provision for impairment in value. Accrued expenses are included on an accrual basis.

During the reporting period, no changes were made to the recognition and valuation bases used or to estimations.

## D.4 ALTERNATIVE METHODS FOR VALUATION

Standard UK does not utilise any alternative methods of valuation.

## D.5 ANY OTHER INFORMATION

Standard UK has not identified any other information that it considers material to be disclosed.

## E. CAPITAL MANAGEMENT

### E.1 OWN FUNDS

Standard UK's available own funds are set out below.

<b>Own funds - Basic</b>	<b>Tier</b>	<b>2022 US\$'000</b>	<b>2021 US\$'000</b>
Reconciliation reserve	1	47,664	59,987
An amount equal to the value of net deferred tax assets	3		
<b>Total own funds - Basic</b>		<b>47,664</b>	<b>59,987</b>

<b>Own funds - Ancillary</b>	<b>Tier</b>	<b>2022 US\$'000</b>	<b>2021 US\$'000</b>
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	2	13,035	12,982

<b>Total available own funds</b>		<b>60,699</b>	<b>72,969</b>
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Standard UK's available own funds comprise tier one reconciliation reserve as calculated on a Solvency II balance sheet basis (\$47.7m) and tier two ancillary own funds (\$13.0m) (being the ability to make unbudgeted supplementary calls, capped based on the formula  $ETP \times M \times R$ , where ETP is the mutual premium, M is 0.30 and R is 0.65).

Standard UK's eligible own funds are set out below.

<b>As at 20 February</b>	<b>Tier</b>	<b>2022 US\$'000</b>	<b>2021 US\$'000</b>
Own Funds - Basic (reconciliation reserve)	1	47,664	59,987
Own Funds - Ancillary	2	13,035	12,982
<b>Total Eligible own funds to meet the SCR</b>		<b>60,699</b>	<b>72,969</b>
<b>SCR</b>		<b>40,187</b>	<b>43,896</b>
Ratio of Eligible own funds to SCR		<b>151%</b>	166%
<b>Total Eligible own funds to meet the MCR</b>		<b>47,664</b>	<b>59,987</b>
<b>MCR</b>		<b>10,047</b>	<b>10,974</b>
Ratio of Eligible own funds to MCR		<b>474%</b>	547%

All eligible own funds are unrestricted and available to meet the SCR. The ancillary own funds are not available to cover the MCR and thus only the tier one reconciliation reserve of \$47.7m is available to meet the MCR.

The differences between net assets as calculated under UK GAAP and those calculated under a Solvency II basis are set out below. Further detail is included in section D2.

<b>Reconciliation of net assets - UK GAAP to Solvency II</b>	<b>2022 US\$'000</b>	<b>2021 US\$'000</b>
UK GAAP net assets	<b>57,634</b>	71,432
Claims provision adjustment	<b>(266)</b>	(617)
Premium provision adjustment	<b>434</b>	(494)
Risk margin	<b>(10,138)</b>	(10,334)
<b>Solvency II net assets</b>	<b>47,664</b>	59,987

Standard UK and the board's tolerance for risk (at both Standard UK and Standard Group level) is limited by the desire to minimise the chance of making unbudgeted calls on Standard UK's membership, and so Standard UK seeks to maintain sufficient capital such that the chance of a supplementary call or other similar material mitigating action is less than 10% over the financial year. Own funds (at both group and UK level) are comfortably in excess of regulatory capital requirements.

In addition one of Standard UK's goals is to provide first class financial security to its membership, including maintaining a 'AAA' capital strength rating with Standard and Poor's, and so any decisions around premium returns or underwriting rate rises are made in the context of ensuring UK GAAP net assets remain above the capital level.

Another goal of Standard UK (which supports maintaining capital strength) is to aim for breakeven underwriting, so ensuring the maintenance of the level of own funds.

Approval for the use of ancillary own funds was granted on 20th February 2020 and lasts from midday on that date until midday on 20th April 2023. Details of this approval are available on the PRA's website.

### **Volatility of own funds**

As set out in section C, the comprehensive reinsurance available to Standard UK limits any volatility around the underwriting result, while the conservative investment portfolio limits volatility in the investment result. While there is some volatility around currency risk, even at a 1 in 200 level currency fix as per the standard formula at \$5.3m (2021: \$6.3m) represents approximately 11% (2021: 11%) of the reconciliation reserve.

### **Management of own funds**

Standard UK renews the majority of its business on 20 February. As a result, it can respond to adverse underwriting results by raising insurance rates at renewal (or keeping rates constant or reduce them in the event of underwriting profits occurring). If Standard UK has surplus assets it can either return premium to shipowner members or pay dividends to its parent company (The Standard Club Limited). While a sustained period of erosion of own funds through underwriting or investment losses is unlikely, Standard UK is able call on the financial support of the parent company if required or make a supplemental call on its members.

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

### 1. SCR by risk module

Solvency Capital Requirement (SCR)	2022 US\$'000	2021 US\$'000
Market risk	8,363	10,525
Counter party default risk	19,208	20,734
Non-life underwriting risk	12,248	12,679
<b>Undiversified BSCR</b>	<b>39,818</b>	43,938
Diversification	(8,904)	(10,172)
<b>Basic SCR</b>	<b>30,913</b>	33,766
Operational risk	9,274	10,130
<b>Final SCR</b>	<b>40,187</b>	43,896

<b>Minimum Capital Requirement (MCR)</b>	<b>10,047</b>	10,974
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The SCR for Standard UK is \$40.2m (2021: \$43.9) and was calculated using the Standard Formula. Standard UK has not adopted simplified calculations for any risk modules and sub-modules.

Standard UK has not utilised simplified calculations nor has it used undertaking-specific parameters to calculate the SCR pursuant to Article 104(7) of the Solvency II Directive. The SCR remains subject to formal supervisory assessment and includes no adjustments or capital add-on.

### 2. Change over the reporting period

The SCR has decreased by \$3.7m (2021: \$3.9m decrease) from last year. In part this is due to a reduction in reserve risk (within non-life underwriting risk) and reinsurance counterparty default risk as old EU claims (and recoveries on those claims) run-off, however market risk has also fallen as the size of the investment portfolio has reduced over the year. This downward trend is expected to continue as those historic EU claims continue to run-off.

The MCR which is calculated as 25% of the SCR has decreased in proportion to the decrease in the SCR.

### 3. Inputs to MCR

The Minimum Capital Requirement (MCR) for Standard UK is \$10.0m (2021: \$11.2m). The input parameters to the MCR are the net best estimate technical provision and the net written premium. The net best estimate technical provision is discussed in further detail in section D.2. The net written premiums consist of premiums due to Standard UK during the reporting period irrespective of whether the premiums relate in whole or in part to insurance cover provided in prior or future periods.



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

Standard UK has not used the duration-based equity risk sub-module in the calculation of the SCR.

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

Standard UK has not used any internal model in the calculation of the SCR.

### E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

Standard UK has not faced any form of non-compliance with the Minimum Capital Requirement or the Solvency Capital Requirement and has maintained capital sufficient to meet both requirements during the reporting period and at the date of this report.

### E.6 ASSESSMENT OF FUTURE CAPITAL REQUIREMENTS AND SURPLUS CAPITAL

With the SCR at 20 February 2022 being \$40.2m (2021: \$43.9m), and the total eligible own funds being \$60.7m (2021: \$73.0m), the level of surplus capital stands at \$20.7m (2021: \$29.1m).

The forecast for the next two years reflects continued run-off of EU claims incurred on business written before February 2019.

	Current	Forecast (unaudited)	
	2022	2023	2024
	US\$'000	US\$'000	US\$'000
<b>Solvency Capital Requirement (SCR)</b>	<b>40,187</b>	<b>39,808</b>	<b>38,811</b>
<b>Minimum Capital Requirement (MCR)</b>	<b>10,047</b>	<b>9,952</b>	<b>9,703</b>
<b>Tier 1 basic own funds (reconciliation reserve)</b>	<b>47,664</b>	<b>48,173</b>	<b>49,418</b>
<b>Tier 2 ancillary funds (supplementary calls)</b>	<b>13,035</b>	<b>16,764</b>	<b>17,399</b>
<b>Total eligible own funds</b>	<b>60,699</b>	<b>64,937</b>	<b>66,817</b>
<b>Surplus of total own funds over the SCR</b>	<b>20,513</b>	<b>25,130</b>	<b>28,006</b>

**S.02.01.02**  
**Balance sheet**

Solvency II value	
C0010	
	0
	91
	0
	0
	83,951
	0
	0
	0
	37,739
	35,082
	2,657
	0
	0
	20,973
	19,588
	5,650
	0
	0
	0
	513,469
	513,469
	513,469
	0
	0
	0
	0
	0
	0
	3,588
	19,193
	64,026
	0
	0
	14,928
	6,919
	706,164

**Assets**

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

S.02.01.02

## Balance sheet

Solvency II value
C0010
532,225
532,225
0
522,087
10,138
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
19,650
0
0
22,842
24,187
59,156
0
0
0
441
658,500
47,664

### Premiums, claims and expenses by line of business

[illegible]

## S.05.02.01

## Premiums, claims and expenses by country

## Non-life

R0010

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
	102,859						102,859
	1,424						1,424
							0
	95,311						95,311
	8,972						8,972
<b>Premiums written</b>							
R0110 Gross - Direct Business	102,859						102,859
R0120 Gross - Proportional reinsurance accepted	1,424						1,424
R0130 Gross - Non-proportional reinsurance accepted							0
R0140 Reinsurers' share	95,311						95,311
R0200 Net	8,972						8,972
<b>Premiums earned</b>							
R0210 Gross - Direct Business	102,859						102,859
R0220 Gross - Proportional reinsurance accepted	1,424						1,424
R0230 Gross - Non-proportional reinsurance accepted							0
R0240 Reinsurers' share	95,311						95,311
R0300 Net	8,972						8,972
<b>Claims incurred</b>							
R0310 Gross - Direct Business	89,840						89,840
R0320 Gross - Proportional reinsurance accepted	0						0
R0330 Gross - Non-proportional reinsurance accepted							0
R0340 Reinsurers' share	82,516						82,516
R0400 Net	7,324						7,324
<b>Changes in other technical provisions</b>							
R0410 Gross - Direct Business							0
R0420 Gross - Proportional reinsurance accepted							0
R0430 Gross - Non-proportional reinsurance accepted							0
R0440 Reinsurers' share							0
R0500 Net	0						0
R0550 <b>Expenses incurred</b>	2,936						2,936
R1200 <b>Other expenses</b>							
R1300 <b>Total expenses</b>							2,936

S.17.01.02  
Non-Life Technical Provisions

Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation						
Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance							
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180						
R0010	Technical provisions calculated as a whole															0						
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole															0						
Technical provisions calculated as a sum of BE and RM																						
Best estimate																						
Premium provisions																						
R0060	Gross															11,802	-4,450					7,353
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default															7,791	-4					7,787
R0150	Net Best Estimate of Premium Provisions															4,012	-4,446					-434
Claims provisions																						
R0160	Gross															511,270	3,464					514,734
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default															502,037	3,646					505,683
R0250	Net Best Estimate of Claims Provisions															9,233	-182					9,051
R0260	Total best estimate - gross															523,072	-986					522,087
R0270	Total best estimate - net															13,245	-4,627					8,617
R0280	Risk margin															10,011	127					10,138
Amount of the transitional on Technical Provisions																						
R0290	Technical Provisions calculated as a whole																					0
R0300	Best estimate																					0
R0310	Risk margin																					0
R0320	Technical provisions - total															533,083	-858					532,225
Recoverable from reinsurance contract/SPV and																						
R0330	Finite Re after the adjustment for expected losses due to counterparty default - total															509,827	3,642					513,469
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total																						
R0340																23,256	-4,500					18,755



### Non-Life insurance claims

Accident year / underwriting year

Underwriting Year

Gross Claims Paid (non-cumulative) (absolute amount)															
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
	Year	Development year										In Current year	Sum of years (cumulative)		
		0	1	2	3	4	5	6	7	8	9	10 & +			
R0100	Prior												9,317	9,317	9,317
R0160	2013	26,679	46,241	26,356	18,743	11,603	5,137	9,831	18,590	7,475	40,396		40,396	211,052	
R0170	2014	32,365	107,095	65,323	45,138	21,435	54,318	26,999	3,394	1,522			1,522	357,589	
R0180	2015	40,360	94,720	29,613	7,545	6,740	2,307	389	2,621				2,621	184,295	
R0190	2016	35,301	84,943	45,622	16,492	36,653	7,566	-16,012					-16,012	210,565	
R0200	2017	28,710	37,437	21,688	18,573	17,060	6,805						6,805	130,273	
R0210	2018	20,311	65,298	17,283	11,382	7,336							7,336	121,609	
R0220	2019	82,978	94,050	82,934	28,307								28,307	288,268	
R0230	2020	33,652	28,139	8,905									8,905	70,696	
R0240	2021	23,880	19,980										19,980	43,860	
R0250	2022	27,166											27,166	27,166	
R0260													Total	136,343	1,654,689

[illegible]

**S.23.01.01**  
**Own Funds**

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35**

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

R0220 **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

R0230 **Deductions for participations in financial and credit institutions**

R0290 **Total basic own funds after deductions**

**Ancillary own funds**

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	<b>Total ancillary own funds</b>

**Available and eligible own funds**

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580 **SCR**

R0600 **MCR**

R0620 **Ratio of Eligible own funds to SCR**

R0640 **Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	<b>Reconciliation reserve</b>

**Expected profits**

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	<b>Total Expected profits included in future premiums (EPIFP)</b>

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0	0		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
47,664	47,664			
0		0	0	0
0				0
0	0	0	0	0

0				
0				
47,664	47,664	0	0	0

0			
0			
0			
0			
0			
0			
13,035		13,035	
0			
0			
13,035		13,035	0

60,699	47,664	0	13,035	0
47,664	47,664	0	0	
60,699	47,664	0	13,035	0
47,664	47,664	0	0	

40,187
10,047
151.04%
474.42%

C0060
47,664
0
0
47,664

0

## S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

R0010	Market risk
R0020	Counterparty default risk
R0030	Life underwriting risk
R0040	Health underwriting risk
R0050	Non-life underwriting risk
R0060	Diversification

R0070 Intangible asset risk

R0100 **Basic Solvency Capital Requirement**

**Calculation of Solvency Capital Requirement**

R0130	Operational risk
R0140	Loss-absorbing capacity of technical provisions
R0150	Loss-absorbing capacity of deferred taxes
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
R0200	<b>Solvency Capital Requirement excluding capital add-on</b>
R0210	Capital add-ons already set
R0220	<b>Solvency capital requirement</b>

**Other information on SCR**

R0400	Capital requirement for duration-based equity risk sub-module
R0410	Total amount of Notional Solvency Capital Requirements for remaining part
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
R0440	Diversification effects due to RFF nSCR aggregation for article 304

**Approach to tax rate**

R0590 Approach based on average tax rate

**Calculation of loss absorbing capacity of deferred taxes**

R0640	LAC DT
R0650	LAC DT justified by reversion of deferred tax liabilities
R0660	LAC DT justified by reference to probable future taxable economic profit
R0670	LAC DT justified by carry back, current year
R0680	LAC DT justified by carry back, future years
R0690	Maximum LAC DT

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
8,363		
19,208		
0		
0		
12,248		
-8,904		
0		
30,913		
C0100		
9,274		
0		
0		
40,187		
0		
40,187		
0		
0		
0		
0		
0		
C0109		
0		
LAC DT		
C0130		
0		
0		
0		
0		
0		
0		

**USP Key****For life underwriting risk:**

- 1 - Increase in the amount of annuity benefits
- 9 - None

**For health underwriting risk:**

- 1 - Increase in the amount of annuity benefits
- 2 - Standard deviation for NSLT health premium risk
- 3 - Standard deviation for NSLT health gross premium risk
- 4 - Adjustment factor for non-proportional reinsurance
- 5 - Standard deviation for NSLT health reserve risk
- 9 - None

**For non-life underwriting risk:**

- 4 - Adjustment factor for non-proportional reinsurance
- 6 - Standard deviation for non-life premium risk
- 7 - Standard deviation for non-life gross premium risk
- 8 - Standard deviation for non-life reserve risk
- 9 - None

## S.28.01.01

## Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

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

R0010 MCR<sub>NL</sub> Result

C0010

2,599

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
C0020	C0030
0	
0	
0	
0	
0	
13,245	8,300
0	
0	
0	
0	
0	
0	600
0	
0	
0	
0	

R0020 Medical expense insurance and proportional reinsurance  
 R0030 Income protection insurance and proportional reinsurance  
 R0040 Workers' compensation insurance and proportional reinsurance  
 R0050 Motor vehicle liability insurance and proportional reinsurance  
 R0060 Other motor insurance and proportional reinsurance  
 R0070 Marine, aviation and transport insurance and proportional reinsurance  
 R0080 Fire and other damage to property insurance and proportional reinsurance  
 R0090 General liability insurance and proportional reinsurance  
 R0100 Credit and suretyship insurance and proportional reinsurance  
 R0110 Legal expenses insurance and proportional reinsurance  
 R0120 Assistance and proportional reinsurance  
 R0130 Miscellaneous financial loss insurance and proportional reinsurance  
 R0140 Non-proportional health reinsurance  
 R0150 Non-proportional casualty reinsurance  
 R0160 Non-proportional marine, aviation and transport reinsurance  
 R0170 Non-proportional property reinsurance

## Linear formula component for life insurance and reinsurance obligations

R0200 MCR<sub>L</sub> Result

C0040

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
C0050	C0060

R0210 Obligations with profit participation - guaranteed benefits  
 R0220 Obligations with profit participation - future discretionary benefits  
 R0230 Index-linked and unit-linked insurance obligations  
 R0240 Other life (re)insurance and health (re)insurance obligations  
 R0250 Total capital at risk for all life (re)insurance obligations

## Overall MCR calculation

C0070

R0300 Linear MCR  
 R0310 SCR  
 R0320 MCR cap  
 R0330 MCR floor  
 R0340 Combined MCR  
 R0350 Absolute floor of the MCR  
 R0400 Minimum Capital Requirement

2,599
40,187
18,084
10,047
10,047
2,911
10,047

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