

PAYCARE

Company number 00820791

Registered office address

Paycare House, George Street, Wolverhampton, West Midlands, WV2 4DX

Year Ending 31 December 2020

SOLVENCY AND FINANCIAL CONDITION REPORT



DEFINITIONS

SII	Solvency II
the reporting date	31 December 2020
the reporting period	Year to 31 December 2020
the Company	Paycare
SFCR	Solvency and Financial Condition Report
ORSA	Own Risk and Solvency Assessment
SCR	Solvency Capital Requirement
MCR	Minimum Capital Requirement
UK GAAP	United Kingdom Generally Accepted Accounting Principles
RLAM	Royal London Asset Management
JPM	JP Morgan
LBPB	Lloyds Bank Private Banking
AFM	Association of Financial Mutuals
IPT	Insurance Premium Tax
CSR	Corporate Social Responsibility
ICG	Internal Capital Guidance
NBV	Net Book Value
GDPR	General Data Protection Regulation

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1. Executive Summary

This is the fifth SFCR of the company based on financial position as at 31st December 2020.

This SFCR report is a requirement of the SII Directive. It summarises the historical performance, the SII valuation and solvency position of the company together with the specific risks faced and how they are managed.

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The figures presented in the SFCR have incorporated updated assumptions based on the experience of the business during 2020 and therefore reflect the impact of COVID-19 on the company.

“Our vision is nothing less than realizing the full potential of our people, delivering outstanding customer outcomes and making every day healthcare accessible to all”



To ensure that we achieve our vision the business focus is split into four steams.

Customers

Paycare exists for the benefit of our Customers. It is the reason for our existence. We will always put them at the heart of everything we do.

We are here for our policyholders and will ensure that they get value and benefit from their policy with us. We not only look to meet our customer’s expectation but to exceed them and actively encourage our policyholders to be proactive in the management of their everyday healthcare by producing content that helps our customers strive for this goal. We will also look to recognise trends in the NHS and develop our products accordingly for the benefit of our policyholders.

We welcome and embrace feedback from our policyholders in order to continue to improve as a business. The FCA Principles for Businesses (6) states “A firm must pay due regard to the

interests of its *customers* and treat them fairly”. This principle is fully embedded in the company.

The FCA Principles for Businesses (1) states “A *firm* must conduct its business with integrity”. The Paycare brand is a trusted one, we will ensure this is protected and look to enhance the value of this trust to existing and future customers. We will always look to ensure that our compliance with good IT governance principles is adhered to.

People

Our people ARE our most important asset. We believe and embrace that always. We will strive to nurture, challenge and show respect for them

We believe that is essential for excellent performance that our employees are rested and energised when they come to work. We believe that a life outside of work is vital to achieving this and always strive to get that balance right. We continue to embed mindfulness in the workplace practice, acknowledging that this is not for everyone and accepting non-participation. We trust our people to make the right decisions and support them when they don't. Our culture is one of non-blame, non-judgemental.

Succession planning is vital to the long term success and sustainability of any business. Our aim is to ensure continual development of our team, meeting their needs and expectations and also the demands of the business.

Technology

Technology will drive efficiencies in the business and deliver a better customer experience

We shall strive for operational excellence and embrace new technologies to deliver maximum benefit to our policyholders.

Communities

We don't just talk about Corporate Social Responsibility, we embrace it and demonstrate our commitment to it.

The company is a really respected part of our community and we pride ourselves on what we can give back to that community. It is therefore essential that we have a sustainable business model that takes us into our next 145 years, by doing so we shall be able to fulfil our desire to continue giving back to our community.

2. Business and Performance

2.1 The Business

Paycare is a company limited by guarantee. Our company number is 00820791

The company is a category 5 firm and therefore has no named supervisor and is managed through the smaller insurer regime. The company is approved and authorised by the PRA and regulated by the PRA and the FCA.

The Company was founded in 1874 and is a provider of healthcare cash plans throughout the UK.

2.2 Underwriting Performance

The impact of COVID resulted in a decrease in Policyholder numbers. We anticipate that the Policyholder numbers lost during 2020 will recover to normal levels in the next two years

The closure of many practitioners and limited capacity after the initial lockdown resulted in a significant reduction in benefits paid to Policyholders.

We however believe that the forward trend in the marketplace will be to see the increase in our Company paid policies and decreases in individual policies. This reflects the trend in our industry. The consequence of this movement is a reduction in the average premium income we receive per policyholder.

We saw increases in Insurance premium tax (IPT) in the period 2015 to 2017, this doubled the tax from 6% to 12%. We are aware of the fiscal pressures on our Policyholders and the many hundreds of businesses that are our customers. To this end The Board decided to not pass on the full impact of IPT increase immediately and phased in premium income increases and changes to some of our less well used benefits. This resulted in a negative effect on the Operating profit during this period.

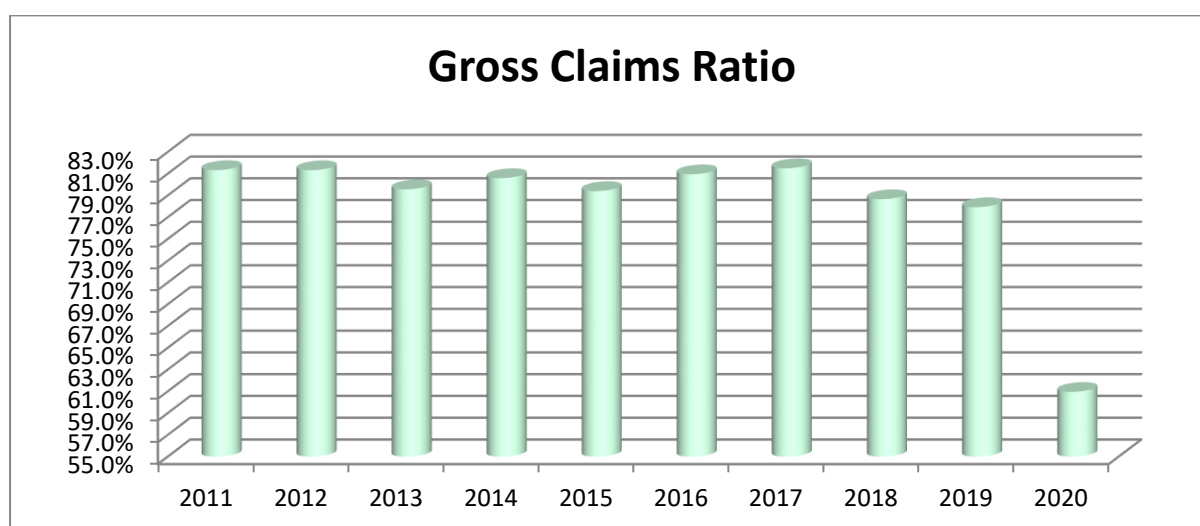
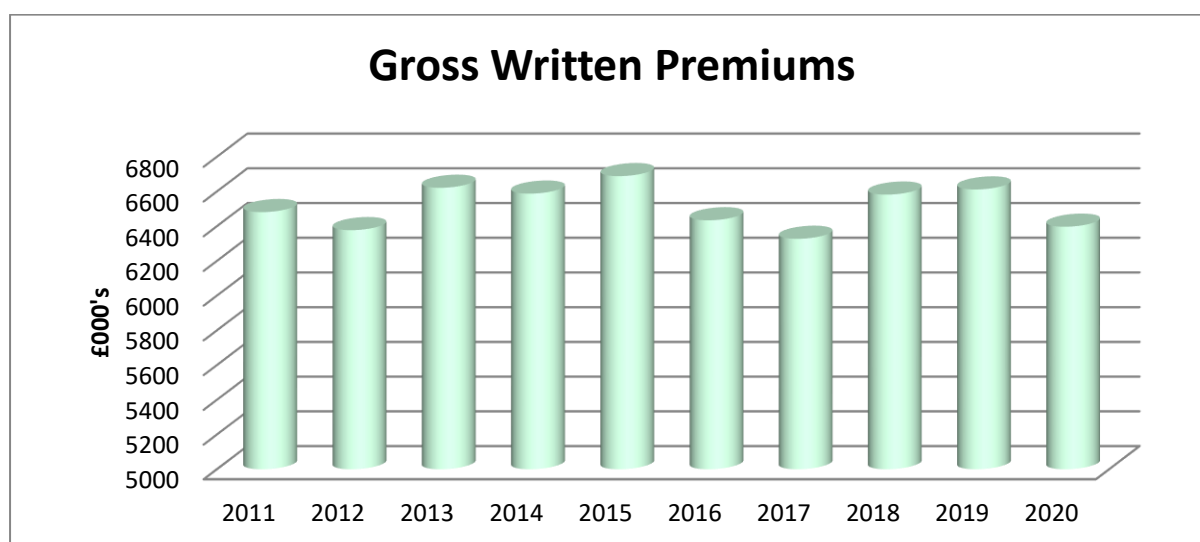
We continue to lobby regulators and government through our trade association to highlight the consequences of what the impacts will be if they continue to see the raising of IPT as an easy target for revenue collection.

Claims ratio can be an unpredictable area to control and we mitigate adverse effects by utilising various monitoring methods. Our policies are monthly renewable and can be amended by giving one months' notice to policyholders.

During the year the total income, including unrealised gains on investments was £6,450,047 (2019 - £6,999,967) a decrease of 7.9% over the preceding year (2019 – 0.5% decrease). Premium income decreased by 3.2% (2019 - increase 0.4%).

During the year the paid benefits to 55,640 claimants (2019 – 85,364) amounted to £3,898,802 (2019 - £5,152,116) a reduction of 24.3% from the preceding year (2019 – 0.4% increase). As a percentage of premium income, the value of claims paid was 60.9% (2019 – 77.9%).

The company does not have any reinsurance.

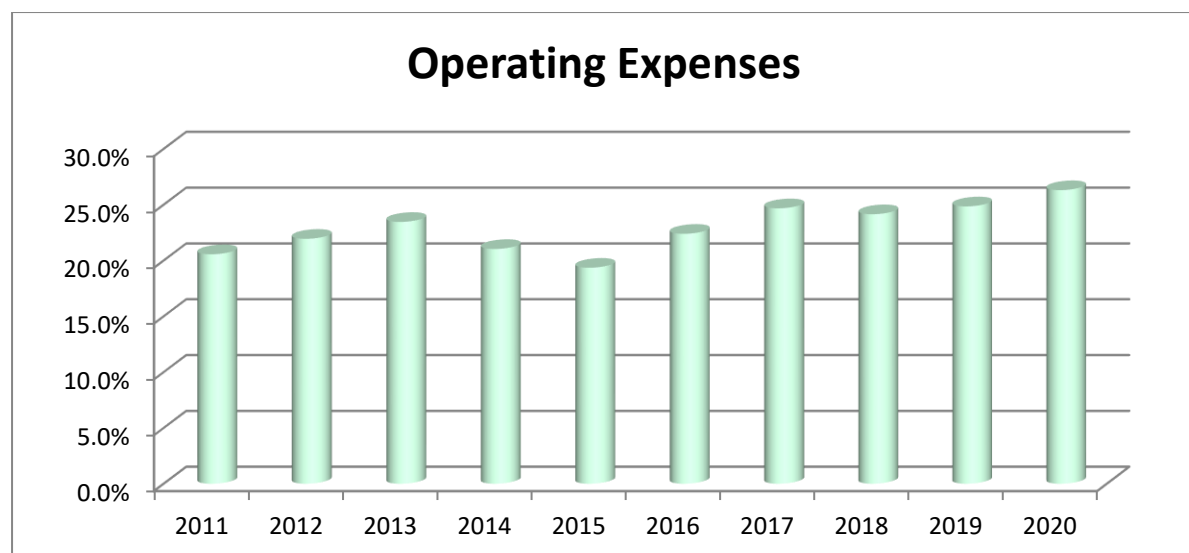


Operating expenses have increased over the past few years with the introduction of the SII regime now in force and we have seen our professional fees increase by 40% since 2014 due to employing the services of consultants, actuaries and similar professionals to ensure that we were and remain compliant with regulated requirements. We have seen many benefits

from the introduction of the regime, however the increased cost to the business requires us to embrace technology to drive down other operating expenses.

Paycare always looks to innovate in all areas of our business. Our industry is undergoing changes at a rapidly accelerating rate, and those who are unwilling or unable to keep up risk being left behind. Technology brings many benefits to the insurance industry. With faster, easier access to more information, we have seen dramatic increases in productivity and efficiency. We shall continue to invest in technology, learning both from inside the UK and globally, particularly where we see this improving our customers experience with us.

Increased use of technology however brings with it new risks. GDPR came into effect in late 2018 to protect our customers private data. Paycare ensured that it was compliant with the regulation and has processes and policies embedded for ongoing compliance.



2.3 Investment Performance

At the reporting date our investment assets are analysed as follows:

- Collective Investment Fund £4.5m
- Property £0.3m
- Total £4.8m

Listed investments are included in the balance sheet at market value.

Investment income includes dividends, interest, rents and gains and losses on the realisation of investments and is initially dealt with in the non-technical account. Dividends are recorded when received. Interest and rents are accounted for when received. Total income received from Collective fund Investments in the year ending 31 December 2020 was £161k (2019 £181k) this represented a 3.6% yield.

The company also hold liquid assets such as cash to meet any short-term liabilities. These assets are held in the name of the company.

The investments are currently registered in the name of Royal London Asset Management. The board meets with our fund managers at least once a year to discuss the performance of the fund and our requirements going forward. Senior management have regular correspondence with our fund managers and actuaries.

Realised gains and losses are calculated as the difference between net sales proceeds and purchase price. If the investment has been held since the previous year end, the realised gain or loss will be calculated as the difference between net sales proceeds and book value. The difference between book value and purchase price is transferred from unrealised reserves to realised reserves. The value of unrealised loss in the year ending 31 December 2020 was £136k, this compared to an unrealised gain in 2019 of £181k.

3. System of Governance

3.1 General Governance Arrangements

The company is a Not for Profit organisation limited by guarantee.

The Board is responsible for corporate governance, reputation of the company and stewardship of its policyholders.

The firm will always endeavour to apply the highest standards of corporate governance and has a goal of continuous improvement in governance processes.

The role of the Board

The Board is responsible for creating the framework within which the firm operates and is collectively responsible to the firm's stakeholders for the direction, promotion and oversight of the firm to ensure its long-term success. It provides leadership for the firm, devises strategy, ensures the necessary resources are available, and sets controls and standards. In doing so, the directors comply with their duties under section 172 of the Companies Act 2006.

Other core activities include obtaining assurance that material risks to the firm are identified, defining the firm's appetite for risk and ensuring that appropriate systems of risk management and internal control exist to mitigate such risks, as well as responsibility for ensuring the effectiveness of, and reporting on, the system of corporate governance. It also monitors performance and approves budgets and material initiatives and commitments. The Board has a clearly articulated set of matters which are specifically reserved for its determination and has approved terms of reference for all Board committees. The Board is responsible for setting the levels of delegated authority, whilst retaining overall responsibility for the governance of the firm. The Board's schedule of matters reserved includes:

- Strategy
- Structure and capital
- Financial reporting and controls
- Internal controls and risk management
- Authorisation and approval levels
- Board membership
- Delegation of authority and policy development
- Corporate governance matters
- Major acquisitions, projects and contracts

From 31 December 2019 the company has applied the new Association of Financial Mutuals (AFM) Corporate governance code. The code sets an expectation that members apply all the six principles and explain how they have interpreted and approached them.

Principle One: Purpose and Leadership

An effective board promotes the purposes of an organisation and ensure that's its values strategy and culture align with its purpose.

Our purpose is to help the UK be happier and healthier through a range of products that are designed to meet our customers' needs. Helping businesses and individuals achieve more, whilst supporting the work of our community and amazing NHS.

Though the leadership of the Board a clear vision for the firm's purpose and values is articulated, which will underpin and defines the strategy and culture of the organisation. This is embedded at every level of management.

- **You're special to us**

We strive to go above and beyond for our customers, showing integrity always.

- **We're stronger together**

We believe a collaborative approach is always better and work closely with our customers to provide for their needs.

- **We embrace change**

We're always looking for new, innovative solutions for our customers and more efficient ways of working.

- **We keep it simple**

We believe in transparency and clarity in our work and communications

Policies and protocols are in place to support the execution of the firm's purpose and values across the organisation, which drives overall engagement with our Policyholders, our customers, our employees and our community across the operating businesses.

The firm's initiatives such as My Giving and My Journey are examples of how purpose is brought to life and benchmarked.

Principle two: Board composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having enough capacity to make a valuable contribution. The size of a board will be guided by the scale and complexity of the organisation.

The firm operates through clear Board protocols and governance processes. These are set out in its terms of reference and standing items for the Board and its committee. This allows for both independent challenge and transparency in decision making.

The Board is supported through the executive and senior management team and its internal governance protocols.

Accountability is driven through routine evaluations of the Board.

The Board composition is balanced between executive and independent non-executive directors.

Principle three: Director responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.

Board appointments have been made with care and to ensure that its membership includes the right and appropriate levels of skills and experience to address the challenges that the business currently faces along with those of the future.

The Nominations committee is charged principally with:

- Conducting an annual review of the Board's composition and consideration of any proposed changes for proposal to the Board;
- The formation of a strategic succession and replacement plan for the Board; and
- Leading the process for identifying and making recommendations to the Board regarding candidates for appointment as directors.

The committee consists of a Chair and two non-executive directors. The committee is supported by Executive directors and senior management team when required.

The Company secretary ensures that the Board has been given enough infrastructure to allow them to undertake their work with due care, which is aligned to achieving the Groups long-term success and vision.

The Board continues to be focused on improving its operational governance to ensure that the firm's corporate purpose and strategy remains at the centre of its decision-making protocols.

Principle four: Opportunity and risk

A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

Through clear definition of the firm's corporate purpose and values the Boards decisions are focused on promoting and delivering long term value; at the heart of which are its policyholders, customers, employees and community. This is embedded across the Groups key operating businesses and strategic decision-making areas.

Principal risks have been identified across the firm and at the operating business level with robust reporting to the Board on the plans to address and mitigate these. These are articulated further in this annual report and are set out in the organisations Own Risk Solvency Assessment (ORSA).

The Audit & Risk Committee is charged principally with:

- Monitoring the integrity of the financial statements;
- Review of the financial statements and their recommendation to the Board for approval;
- Review of the Group's internal controls and risk management systems;
- Major capital expenditure reviews;
- Review of the external audit plan;
- Review of the internal audit plan

The committee consists of a Co-Opted Chair and two non-executive directors. The committee is supported by Executive directors and senior management team when required.

The Audit and Risk Committee looks to meet a minimum of three times each year to assess and discuss risks.

The firm monitors and manages the financial risks relating to the operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

In order to fulfil their responsibilities, the directors have implemented an ongoing process for identifying, evaluating and managing the significant risks faced by the firm. As part of this process, the audit and risk committee and senior management meet together at least once each year to re-assess the areas of risk that are significant to the achievement of business

objectives, as defined by the board in setting strategic direction. The senior management team are responsible for ensuring that the system of internal control manages these areas of risk appropriately and that its effectiveness is adequately monitored and include their findings in regular reports to the directors.

Principle five: Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, considering pay and conditions elsewhere in the organisation.

The firm's remuneration policy is set out and monitored by its remuneration committee with clear objectives to incentivise management based on the long-term success of its strategic goals and business plans.

Succession planning and talent retention are key focus areas for the firm and its operating business levels.

The Remuneration committee is charged principally with:

- reviewing the ongoing appropriateness, relevance and efficiency of remuneration policy and practice;
- reviewing the design of performance-related pay schemes; and
- reviewing and approving the total annual payments made under such schemes

The committee consists of a Chair and two non-executive directors. The committee is supported by Executive directors and senior management team when required.

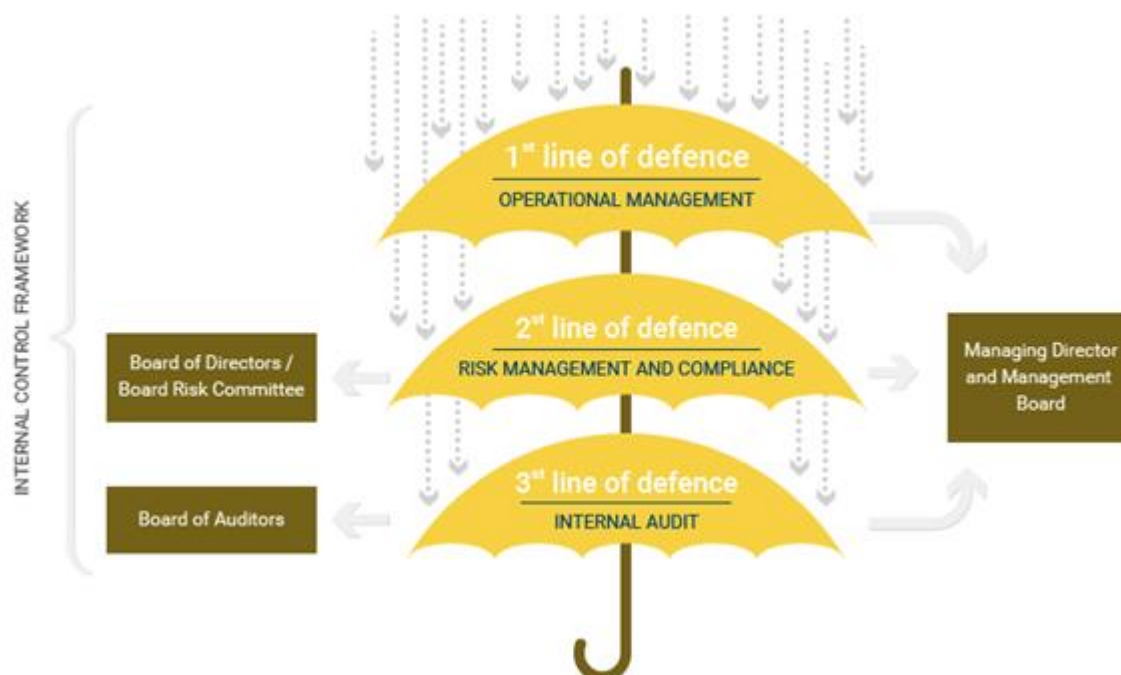
Principle six: Stakeholder relationships and engagement

Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Through the firm's defined purpose, underpinned by its values, stakeholder engagement is embedded at all levels of the organisation with clear direction and endorsement from the Board and senior management across each of the operating businesses.

The firm promotes an ongoing cycle of engagement with its stakeholders.

The company operates a three line of defence governance model.



3.2 Fit and Proper

Directors are appointed under the 'fit and proper' process adopted by the company. 'Fit and proper' is reviewed annually and there is a continuing obligation to advise the chairman if at any point individuals are unable to fill the requirements.

The company processes used to determine, honesty, integrity, reputation, competence/capability and financial soundness involves various checks as listed

- Credit checks,
- Criminal record checks
- Identity checks (including passport)
- Financial sanctions and Anti money laundering check
- FCA register search
- UK directorship search
- Social media checks

A personal declaration and an assessment of the individual's skills, knowledge and experience to undertake the role is also undertaken.

3.3 Risk Management System

The company identifies and manages risk within a clearly defined framework and this framework forms the major risk elements of the company's ORSA. The framework is again underpinned by a 3 lines of defence mechanism.

The Board have ultimate responsibility for identifying and managing the risks that face the business and determine the risk appetite of the company and the Risk and Audit committee directly oversee the framework. Executive directors and senior management manage risks on an operational basis.

Executive directors and senior management meet at least once a year to review assess and update the risk register in full and present this to the Risk and Audit committee for approval. The Risk and Audit committee recommend final approval by the Board.

Senior management prepare at least annually an ORSA report to determine how much additional capital it is felt the company should hold to cover the risks identified.

The company also has a full business continuity plan which is regularly updated.

3.4 ORSA

The company is reporting on the standard formula basis, the Board decided that this was appropriate for the needs of the business and did not apply for an internal or partial internal model. The company has a waiver for quarterly reporting which is in line with other firms of a similar size.

The company does not have a defined benefit pension scheme or any material reinsurance in place.

The ORSA process pulls together all the elements of the risk work carried out within the business and ensures appropriate monitoring takes place.

The ORSA is updated at least annually following the business planning process and at any point where a material change to the business is to take place. It is formally reviewed by the Risk and Audit committee prior to full approval by the Board.

3.5 Internal Control System

The company maintains an internal control system that governs financial and regulatory reporting in the company. This framework aims to ensure that

- All risks that pertain to the preparation and fair representation of the financial statements in accordance with the applicable financial reporting framework have been identified and documented
- There are controls, manual and automated, in place to address these risks and they are adequately designed to prevent or detect material misstatements in the financial statements and disclosures
- The controls identified operate as they are supposed to and are appropriately evidenced.

Within the control framework the company focuses on various key elements as stated:

- Company culture and shared values that bind the organisation
- Personal development plans are agreed for all employees and each employee will undergo a formal performance appraisal at least annually
- Training and development of all employees from Board level to staff
- Treating customers fairly is embedded across the organisation

Compliance is the responsibility of all within the business and this is overseen by the compliance manager who ensures all relevant legislation and regulation is embedded in the business and adhered to.

Senior managers prepare monthly internal process checks across all functions which includes monitoring telephone calls, new business and due diligence, claims payments and correct authorisation of expenditure. The results are reported to the Compliance manager who oversees this process and reports quarterly to the Board.

The compliance function is responsible for reporting to senior management and the Board any breaches or non-compliance with its policies, rules and regulations.

3.6 Internal Audit Function

To achieve independence and objectivity the Board felt this function should be headed up by an external third party and the services of Mazars were engaged to perform this function.

All aspects of internal audit will be covered through a 3-year plan as agreed with the Board and reporting lines are directly to the Risk and Audit committee.

3.7 Actuarial Function

The Board has considered the structure of the actuarial function to be proportional in constitution but complete in scope. The function holder for the actuarial function is Kathryn Moore. Kathryn is employed as a Senior Actuary with Steve Dixon Associates LLP (SDA). Kathryn presents an annual actuarial report to the Board.

The company has engaged the services of SDA to work alongside the Finance Manager in identifying analysing and quantifying levels of risks as required under SII and is reviewed and approved by the CEO.

3.8 Outsourcing

The company have in place an outsourcing policy and all key third party suppliers undergo due diligence and comprehensive service agreements are put in place to ensure that policyholder outcomes are not put at risk.

The Board considers the outsourcing arrangements at the company to be proportional in nature.

The company currently utilises the following service providers to undertake critical or important functions on its behalf:

- IT Outsourcing services including hosting services, software maintenance and support and development activities
- Internal Audit services
- Actuarial services
- Website services
- Compliance Consultant
- Human Resources

4. Risk Profile

4.1 Underwriting Risk

Underwriting risk is the risk of making a loss on an activity or insurance either in assessing the risks it provides policies for or in quantifying claims that occur.

The following measures are used to assess underwriting risks:

- Experience analysis – the company projects the expected premiums and claims that it anticipates for the year ahead and tracks the performance against expected rates and reports results to the executive committee. Any deviations from expected results are identified and corrective action where necessary are put in place. Corrective actions available include changes in premium prices and amendments to benefits received.
- Economic capital modelling – the company has developed methodologies to assess underwriting risks and involves analysis of changing patterns in claims and premiums over time. This analysis gives indication of a deterioration or improvement to underwriting risk profile of the business over a period of time.
- The SII standard formula Capital requirement requires an assessment and quantification of the underwriting risk exposure.

The principal risk faced by the company is that actual claims and benefit payments exceed the premiums received for those benefits. This could occur because the frequency and severity of claims are greater than anticipated. Claim events for certain benefits can be random and the actual number and amount of claims and benefits could vary year on year from the level estimated using estimation techniques as described above.

As the majority of the insurance policies are renewable policies with terms of one month, required premium increases can be implemented within short timescales enabling the risk that premiums are insufficient to cover claims and expenses to be controlled.

Claims are reported to the company and paid within a short timescale which means that the adequacy of claims provisions can be identified and controlled.

4.2 Market Risk

The company's core business is the writing of everyday health cash plans which are monthly renewable and have a short claims tail. Given this short duration a relatively conservative investment strategy is taken.

The Market risk the company faces is that an adverse movement in the value of assets caused by changes in the value of interest rates, credit rating scores or equity prices is not matched by a corresponding movement in the value of liabilities. The company's investment policy ensures a suitable balance of assets and testing of the impact of particular events on these assets, for example a downturn in equities which is critical as part of our SII work in the calculation of the SCR.

The company exposure to different asset categories is monitored quarterly together with the impact on the solvency position, market value and income. Sensitivity testing is carried out to highlight any adverse exposure which can be discussed with the investment managers.

4.3 Counterparty Credit Risk

Counterparty Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the firm. The key areas of exposure to credit risk for the firm are in relation to its cash balances, investment portfolio and to a lesser extent amounts due from policyholders and intermediaries. The objective of the firm in managing its credit risk is to ensure risk is managed in line with the firm's risk appetite. The firm has established policies and procedures in order to manage credit risk and methods to measure it.

4.5 Liquidity Risk

Liquidity risk is the risk that the firm cannot meet its obligations associated with financial liabilities as they fall due. The firm has adopted an appropriate liquidity risk management framework for the management of the firm's liquidity requirements. The firm manages liquidity risk by maintaining banking facilities and investments by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The firm is exposed to liquidity risk arising from policyholders on its insurance contracts. Liquidity management ensures that the firm has sufficient access to funds necessary to cover insurance claims. In practice, most of the firm's assets are marketable securities which could be converted in to cash when required. There were no changes in the firm's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

4.6 Operational Risk

Operational risk relates to the risk of loss resulting from inadequate or failing internal processes, people and systems or from external events such as a natural disaster or terrorist attack.

Material operational risks that are assessed include:

- Cyber/data security – the risk of the inability to protect data from unauthorised use, disclosure, disruption, modification and /or destruction.
- Outsourcing – the risk of failure, non-performance, ineffective management or retention of employees and/or contractors.
- People – the risk of inadequate recruitment process, development, management or retention of employees and/or contractors

5. Valuation for Solvency Purposes

5.1 Assets

The table below sets out the basis of our SII asset valuation for each material class of asset. Assets are measured on a market value basis at the reporting date.

Assets	SII Value £000's	UK GAAP Value £000's
Property, plant & equipment (own use)	894	815
Investment Property	266	266
Collective Investments	4,520	4,520
Insurance and intermediaries receivables	348	425
Cash and cash equivalents	1460	1,460
Any other assets, not elsewhere shown		
Total assets	7,488	7,486

- Property – is valued at fair value under SII and NBV in the annual financial statements which follow UK GAAP.
- Plant & equipment – The Board considers that there is minimal difference between the UK GAAP valuation and the SII value.
- Investment Property – is valued on the same basis as the annual financial statements. Valuations are based on the Board assessment of market value with full valuations being made by an independent professionally qualified valuer periodically as required.

- Investments – are valued for SII purposes on the same value as the financial statements which follow UK GAAP. These are valued at market value at the reporting date.
- Insurance and intermediaries receivables – under UK GAAP these relate primarily to amounts owed to us by policyholders.
- Cash and cash equivalents – the cash holdings are held in the name of the company, they are instant access and the company has no issues withdrawing or moving money held in these accounts.
- Prepayments – under Solvency II these services are valued at nil as they cannot be transferred to another party.

5.2 Technical Provisions

The table below gives a summary of the SII and UK GAAP valuations of technical provisions split between best estimate and risk margin.

Technical Provisions	SII Value £000's	UK GAAP Value £000's
Technical Provisions (Best Estimate)	515	191
Risk Margin	73	-
Total	588	191

The company's SII technical provisions are designed to reflect the amount a third party insurer would be paid to accept the liabilities at December 2020 and are equal to the sum of the best estimate and the risk margin. The best estimate is the sum of the claims and premium provisions and the risk margin is equal to the cost of the capital a third party insurer would require to take on the liabilities. These are set out in accordance with SII regulations. The UK GAAP technical provisions relate to claims only.

The Premium Provision and Claims Provision are calculated separately. The premium provision is established in respect of cash-flow associated with claims which will occur after December 2020 and the claims provision is established in respect of cash-flow associated with claims which have occurred prior to December 2020.

Best estimates are determined using forward looking projections of all in-force policies and claims. The company includes all its business under 'medical expenses insurance' and all business is direct, there is no inward reinsurance.

The company consider that the technical provision is prepared on a suitable basis and in line with legislation.

5.3 Other Liabilities

The table below sets out other liabilities under SII and UK GAAP valuations

Other Liabilities	SII Value £000's	UK GAAP Value £000's
Deferred Tax	-7	-7
Insurance & intermediaries payables	10	10
Trade payables	260	260
Other liabilities	191	191
Total assets	454	454

Deferred tax assets/liabilities are recognised when transactions or events have occurred at the reporting date that will result in an obligation to receive/pay corporation tax in the future if an asset/liability is held. At the 31st December 2020, the deferred tax asset relates to unrealised losses on investments which are expected to reverse in future periods. At the reporting date no specific date has been set for the sale of these investment assets.

Trade payables, including IPT payable are valued at fair value at the reporting date. The financial statements include 'insurance & intermediaries payable' in 'creditors'. There are no differences in valuation under UK GAAP.

6. Capital Management

6.1 Own Funds

The objectives of the business are to maintain sufficient funds to cover MCR and SCR with an appropriate buffer.

The company's own funds consist 100% of policyholder's funds arising from retained profits which have arisen from past underwriting and investment surpluses. There are no restrictions on the availability of the company's own funds to support the MCR and SCR and are therefore classified as Tier 1.

6.2 SCR and MCR

The company applies the standard formula, without modification for undertaking specific parameters and has not used any simplifications allowed by the regulators. The final values remain subject to supervisory assessment.

	Dec 20 SII Value £000's	Dec 19 SII Value £000's
Market Risk	1,278	1,249
Counterparty Risk	162	136
Health Underwriting Risk	1,008	1,056
Diversification	(576)	(567)
Operational Risk	193	199
SCR	2,065	2,073
MCR	2,255	2,153
Own Funds	6,444	5,446
Solvency Ratio	286%	253%

MCR is the result of the formula component calculated in accordance with article 248 (1) of Delegated Regulation 2015/35 of Delegated Regulation 2015/35.

6.3 Non-compliance with MCR and SCR

The company has fully complied with the standard formula calculation for MCR and SCR and has had sufficient assets to cover the technical provisions and MCR (and therefore the SCR) at all times during 2020.

The company has not identified any area where uncertainties are likely to lead to a material misstatement of our capital requirements.

7. Additional information on the COVID-19 global pandemic

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and prohibition of gatherings and events. The spread of COVID-19 has resulted in a sharp economic downturn in markets in which Paycare operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the UK and global economy could be deepened and result in further declines in financial markets.

As an insurance business Paycare is impacted by the COVID-19 pandemic through its insurance products, asset holdings as well as ongoing difficult conditions in the UK and global financial markets and the economy generally. General insurance products are impacted as a result of disruption to practitioners, policyholders and corporate customers. This will lead in the short term in lower claims, but potentially higher claims when Practitioners begin to reopen.

Paycare is keeping its underwriting, pricing and strategy under review at this time. The company is also exposed to market and credit risk associated with the significant volatility in financial markets arising from COVID-19. The company's balance sheet exposure was continually reviewed and actions taken to further reduce the sensitivity to economic shocks.. Paycare continues to maintain strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the business has remained operational, with key activities such as benefit payments and transaction processing being maintained, IT systems remaining operational, and employees being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures and operations.

System of governance

The Company's overarching risk management and internal control system is actively responding to the challenges of the COVID-19 outbreak and remains intact. Work remains ongoing in capturing some aspects of change to the control environment to make allowances for the operational constraints. Any moderations are being closely monitored and subject to appropriate governance. Government travel restrictions and social distancing measures have required us to implement contingency plans and changes to some of our operational processes to ensure continued uninterrupted service to our customers, and to protect staff,

while minimising the impact on the quality of service provided. These plans involve almost all of our staff being able to work from home, including customer service staff. The changes to operational processes that have been implemented have been designed to ensure customer service, data protection and staff well-being risks are at a level accepted by The Board.

Capital management

The capital of the business is monitored on an ongoing basis and continues to maintain strong solvency levels and expects to continue to meet its Solvency Capital Requirements. Notwithstanding this, the COVID-19 pandemic and the associated volatility in financial markets will most likely have an adverse impact on the Company's own funds and solvency cover ratio in the short to medium term. The Company's balance sheet exposure and solvency position has been reviewed and actions are being taken to protect the solvency position and further reduce the sensitivity to economic shocks.

Paycare

Solvency and Financial Condition Report

Disclosures

31 December

2020

(Monetary amounts in GBP thousands)

General information

Undertaking name	Paycare
Undertaking identification code	213800H3VDM7SWS7BQ64
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

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

S.05.02.01 - Premiums, claims and expenses by country

S.17.01.02 - Non-Life Technical Provisions

S.19.01.21 - Non-Life insurance claims

S.23.01.01 - Own Funds

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

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

S.02.01.02

Balance sheet

Solvency II value	
C0010	
	894
	4,786
	266
	0
	0
	0
	0
	0
	0
	0
	0
	4,520
	0
	0
	0
	0
	0
	0
	0
	292
	0
	1,460
	57
	7,488

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	Total assets

S.02.01.02

Balance sheet

Solvency II value
C0010
588
0
0
0
0
588
0
515
73
0
0
0
0
-7
10
260
0
0
191
1,044
6,444

Premiums, claims and expenses by line of business

[illegible]

S.05.02.01

Premiums, claims and expenses by country

Non-life

		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
Premiums written								
R0110	Gross - Direct Business	6,440						6,440
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share							0
R0200	Net	6,440						6,440
Premiums earned								
R0210	Gross - Direct Business	6,440						6,440
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share							0
R0300	Net	6,440						6,440
Claims incurred								
R0310	Gross - Direct Business	3,662						3,662
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share							0
R0400	Net	3,662						3,662
Changes in other technical provisions								
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	Expenses incurred	1,694						1,694
R1200	Other expenses							
R1300	Total expenses							1,694

Non-Life Technical Provisions

R0340 Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

Non-Life insurance claims

Total Non-life business

Accident year / underwriting year	Accident Year
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[illegible]

Gross Undiscounted Best Estimate Claims Provisions (absolute amount)													C0360
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	Year end (discounted data)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	
R0160	0	0	0	0	0	0	0	0	0	0		0	
R0170	0	0	0	0	0	0	0	0	0			0	
R0180	0	0	0	0	0	0	0	0				0	
R0190	0	0	0	0	0	0	0					0	
R0200	0	0	0	0	0	0						0	
R0210	159	0	0	0	0							0	
R0220	158	0	0	0								0	
R0230	83	0	0									0	
R0240	237	0										0	
R0250	203											203	
R0260	Total											203	

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 **Total ancillary own funds**

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	Reconciliation reserve

Expected profits

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

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
6,444	6,444			
0		0	0	0
0				0
0	0	0	0	0

0				
0	0	0	0	
6,444	6,444	0	0	0

0			
0			
0			
0			
0			
0			
0			
0			
0			
0		0	0

6,444	6,444	0	0	0
6,444	6,444	0	0	
6,444	6,444	0	0	0
6,444	6,444	0	0	

2,065
2,255
312.03%
285.76%

C0060
6,444
0
0
0
6,444

-38
-38

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	Solvency Capital Requirement excluding capital add-on
R0210	Capital add-ons already set
R0220	Solvency capital requirement
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
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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
1,278		
162		
0		
1,008		
0		
-576		

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

C0100
193
0
0
2,065
0
2,065

0
0
0
0
0

C0109

Not applicable

LAC DT

C0130

0
0
0
0
0

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_{NL} Result

C0010

327

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020

C0030

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

515	6,440
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	

Linear formula component for life insurance and reinsurance obligations

R0200 MCR_L Result

C0040

0

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

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

C0070

327

2,065

929

516

516

2,255

2,255