CIS General Insurance Limited

Annual report and accounts 2018

Part of The Co-operative Group Limited

Principal Activities

CIS General Insurance Limited ('CISGIL' and the 'Society') is a UK-based General Insurer that underwrites insurance, predominantly in personal lines (Motor and Home). Co-op Insurance Services Limited was a subsidiary of CIS General Insurance Limited (together the 'Group') until November 2018, when CIS General Insurance Limited disposed of its entire shareholding in Co-op Insurance Services Limited, to Co-operative Group Limited (the 'disposal').

Financial Position & Performance

The financial position of the Society at 31 December 2018 is shown in the Statement of Financial Position on page 14 with the trading results shown in the income statement on page 12. A summary of the trading result is shown below.

Highlights

Results summary	Group 2018 £m	Group 2017 £m	Group Change £m
Net earned premiums	**323.5**	331.3	(7.8)
Net policyholder claims and benefits incurred	**(239.0)**	(236.2)	(2.8)
Investment return	**12.2**	15.4	(3.2)
Commission and expenses	**(153.7)**	(159.5)	5.8
Other income	**57.0**	59.7	(2.7)
Finance costs	**(8.6)**	(8.6)	-
(Loss)/Profit before business improvement costs, disposal and taxation	**(8.6)**	2.1	(10.7)
Costs in respect of business improvements	**(20.3)**	(23.0)	2.7
Loss before disposal and taxation	**(28.9)**	(20.9)	(8.0)
Gross written premiums	**485.1**	496.1	(11.0)
Claims ratio (1)	**73.9%**	71.3%	
Commission and expense ratio (2)	**29.9%**	29.9%	
Combined operating ratio (3)	**103.8%**	101.2%	

(1) Net claims incurred divided by net earned premiums

(2) Operating expenses (excluding business improvement costs and investment management fees of £1.1m (2017:£1.0)) and net commission expense divided by net earned premium

(3) Combination of the claims ratio and the commission and expense ratio

The 2018 full year financial result was a loss before taxation and disposal of £(28.9)m (2017: £(20.9)m). The reported loss before business improvement costs, disposal and taxation for 2018 was £(8.6)m (2017: profit of £2.1m). This result includes the costs of the significant weather events experienced in 2018 including an estimated £8.0m due to adverse winter weather in Q1 and £3.7m due to increased subsidence claim levels in the second half of the year. Excluding the costs of these weather events there would have been a £3.1m profit before business improvement costs, disposal and taxation.

Gross written premium in 2018 fell by £11.0m to £485.1m. This reflects the continued price competitiveness of the motor market in the year, and lower levels of renewals in the home book.

The combined operating ratio was 103.8% (2017:101.2%).

Investment return fell by £3.2m year on year, primarily driven by lower levels of realised gains from the sale of investments than in the previous year with £0.7m (2017: £2.8m).

Future Developments

On 18 January 2019, Co-operative Group Limited announced its intention to sell CISGIL to the Markerstudy group, who specialise in general insurance products and complementary services. The transaction is planned to complete in Q3 2019, subject to Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) approval.

In July 2015, CISGIL launched a programme of activity, focused on the implementation and operation of a fully managed IT platform, with IBM as the primary supplier of services. In July 2017 it was announced that the contract with IBM had been terminated and that CISGIL had subsequently initiated proceedings against IBM in relation to the terminated contract in an amount of approximately £130m. No asset has been recognised in the Financial Statements regarding the claim. These proceedings are ongoing as at the date of the approval of this report.

The impacts of Brexit are uncertain. Although CISGIL is predominantly a UK business, it does have exposure to financial markets and it imports goods and services in order to fulfil insurance claims, including from the European Union (EU). CISGIL has been monitoring events and has taken steps to mitigate the likely impact where possible. This includes developing contingency plans with suppliers and preparing to issue customers with proof of insurance documents for use in the EU. However, there remains the risk that costs could increase due to the impact to the supply chain and increased administrative requirements for customers travelling to the EU.

Future Developments (continued)

The Civil Liability Act received Royal Assent in December 2018. This Act and associated changes are expected to reduce the cost of whiplash claims arising from road accidents occurring from April 2020. The Act also makes changes to the way the personal injury discount rate (Ogden rate) is set and a new rate must be set by the Lord Chancellor no later than August 2019.

If the rate is set within the 0% to 1% range as previously indicated by Government, this would result in a reduction in the cost of the largest personal injury claims compared with the current -0.75% rate. The Societies' year-end reserves, for both 2017 and 2018, were set on the assumption that a discount rate of 0% will apply following the current review, although the actual rate could be higher or lower than this.

Operational Developments

Operational developments in 2018 have focused on customer service and improving customer proposition, supported by the implementation of lean working practices. During 2018, training has been rolled out across operational areas so that vulnerable customers can be identified and to further embed a culture focussed on ensuring fair outcomes for all.

Improving overall customer experience remains at the heart of what we do, with progress recognised in KPMG's Nunwood 2018 Customer Experience Excellence all sector top 100, where CISGIL moved up 119 places in the last year to a rank of 48th to become one of only three insurers in the top 50. Net Promoter Score (NPS) ended at 38.0 for 2018 (2017: 39.5).

In 2018, progress has been made in remediating specific areas of the current IT estate and the separation of IT systems shared with third parties.

Colleague

Providing colleague opportunities and development continues to be a key focus. CISGIL continued to focus on leadership capability by completing 'Leading The Way', a programme for senior colleagues to develop their leadership skills and knowledge. To support talent development and grow the next generation of leaders 'Taking the Lead' was launched in 2018 aimed at developing front line customer facing team leaders. CISGIL continued to work closely with Co-op Academies and have created additional apprenticeships for school leavers this year, with competitive salaries above the national apprenticeship minimum wage and the opportunity to earn qualifications up to degree level. To progress a commitment to inclusion, CISGIL introduced its first women's network 'Inspire' across Insurance.

Colleague engagement continues to be a priority for CISGIL, with monthly pulse surveys and an annual Leadership survey across all functional areas with a commitment from senior leaders to act on the results through 6 key themes. Colleague engagement score for 2018 was 58% (2017: 68%). The engagement score reduced due to uncertainty and the media speculation about the future of the business. However, sentiment around manager behaviours is strong, with the Leadership index at 80%.

Group Structure

CISGIL is a wholly owned subsidiary of the Co-operative Group Limited.

In November 2018, CISGIL disposed of its shareholding in Co-op Insurance Services Limited to Co-operative Group Limited.

On 18 January 2019, Co-operative Group Limited announced its intention to sell CISGIL to the Markerstudy group.

Market Background

The UK general insurance market is a highly competitive price driven environment with multiple insurance providers. There was significant downwards pressure on premium rates in Motor throughout 2018, driven by government announcements relating to the intention to increase the Ogden rate and reforms in whiplash claims, partially offset by continuing claims inflation. In the Home market, premiums for individual buildings and contents insurance policies have fallen in the year, while premiums for combined policies have been predominantly flat.

Investment yields remain historically low, which reinforces the importance of a continued focus on maintaining underwriting discipline.

Regulatory Background

The pace of regulatory change has continued throughout 2018 with the implementation and development of various regulatory themes, including The General Data Protection Regulation (GDPR), the Insurance Distribution Directive (IDD) and The Senior Manager and Certification Regime (SMCR).

Towards the end of the year, the FCA published a series of publications related to the area of pricing, loyalty and competition in household and motor insurance. The regulatory focus is expected to build on these current themes, but will also be influenced by the continuing uncertainty of the regulatory impact of the UK's withdrawal from the EU.

Capital

CISGIL has continued to monitor available capital on a Solvency II basis throughout 2018 with an estimated Standard Formula Solvency Capital Requirement (SCR) coverage at 31 December 2018 of 153% (2017:158%). The SCR coverage reflects the favourable benefit of the two year quota share reinsurance programme which ended in December 2018, with a further programme entered into for 2019 on similar terms.

Key Performance Indicators

The business strategy for CISGIL measures success in the following key areas: financial and trading; customer; colleague and capital adequacy & risk. This ‘balanced scorecard’ approach is a key reflection of the Co-op difference and helps ensure focus on the implications to areas identified as key in progression towards the strategic vision.

Indicator	**2018**	2017
Financial and trading *Financial and trading measures focus on profitability, volumes and efficiency*		
Gross written premium This shows the level of premium income that combined business classes bring to CISGIL	£485.1m	£496.1m
Combined operating ratio This compares the levels of claims, costs and commissions being paid out against the level of earned premium	103.8%	101.2%
Profit/(loss) before business improvements, disposal and taxation This shows the level of profit/(loss) before tax (excluding business improvement costs and disposal)	£(8.6)m	£2.1m
In force policy count Policies in force is the number of policies CISGIL hold at the statement of financial position date	1,346,367	1,355,137
Customer *Customer measures report on customer contacts throughout the customer journey*		
Net Promoter Score (NPS) A cross industry standard metric to track promoters and detractors, producing a clear measure of an organisation's performance through its customers' eyes (An NPS above zero is regarded as good, above 50 is excellent)	**38.0**	39.5
Colleague *Colleague measures focus on employee engagement and satisfaction*		
Colleague engagement Our colleague engagement assessment is derived from an annual internal colleague survey and is a combined score for all functions within the business	58%	68%
Capital adequacy & risk *Risk measures focus on capital adequacy and risk appetite*		
Risk appetite For each of the principal risks, CISGIL Board has approved risk appetite statements with underpinning metrics	Risk appetite metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues	
Capital buffer There are a number of different methodologies for calculating the minimum level of capital that CISGIL must maintain. At any one time CISGIL must ensure it has sufficient capital to meet the most onerous of these requirements. The principal externally imposed capital requirement is SCR under Solvency II, which is assessed quarterly.	153%	158%

Principal Risks and Uncertainties

The following are considered to be the principal risks facing CISGIL:

Risk Type	Definition	Page
Strategic and business risk	The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital	49
Reputational risk	The risk associated with an issue which could in some way be damaging to the brand of the organisation among all or any stakeholders	49
Conduct risk	The risk that CISGIL's processes, behaviours, offerings or interactions will result in unfair outcomes for customers	49
Regulatory risk	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation CISGIL may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities	49
Insurance (Premium) risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure	50
Insurance (Reserving) risk	The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements	50
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities	51-52
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	52-53
Liquidity risk	The current and prospective risk to earnings or solvency arising from CISGIL's inability to meet its obligations when they come due without incurring unacceptable losses	53-54
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	54-55
Pension risk	The risk to CISGIL capital and profitability from Co-operative Financial Services Management Services' (CFSMS's) exposure to the Group Pension Scheme (Pace) due to employees seconded from CFSMS to CISGIL	56
Group risk	The risks that arise through being part of The Co-operative Group	57

A detailed description of each risk type can be found on pages 49 to 57.

For each of the principal risks, CISGIL Board has approved risk appetite statements, risk policies and control standards with underpinning metrics. The metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues.

Report of the Board of Directors

General Information

CIS General Insurance Limited ('CISGIL' and the 'Society') is a Registered Society under the Co-operative & Community Benefit Societies Act 2014 (Registered number 29999R), authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FRN 435022). CISGIL is a wholly owned subsidiary of Co-operative Group Limited (The Co-op Group or Co-op).

Results and Dividends

The financial statements set out the results of CIS General Insurance Limited and its Group for the year ended 31 December 2018 and are shown on page 12 to 16. The directors of CISGIL did not propose any dividend payment in the period.

Political Donations

There were no political donations during the year.

Directors' Details

The Directors of CISGIL during the financial year are listed below. Their appointments were for the full period unless otherwise stated.

Non-Executive Directors:
Peter Hubbard (Chair)
Alistair Asher (resigned 22 May 2018)
Diane Buckley
Ian Ellis (appointed 23 May 2018)
Caroline Fawcett
Julie Hopes (resigned 4 October 2018)
David Lister (resigned 26 February 2018)
Graham Singleton (resigned 24 April 2018)
Executive Directors:
Mark Summerfield (Chief Executive Officer)
Damien Duffy (Chief Financial Officer)

Secretary:
Katy Arnold (resigned 27 July 2018)
Sarah Clayton (appointed 28 July 2018 and resigned 29 January 2019)
Chris Judd (appointed 29 January 2019)

In early 2018 the board was restructured to ensure the mixture of skills available aligned with the business strategy.

Employees

CISGIL has no employees. All colleagues are employed through the Co-op Group or CFS Management Services Limited, a subsidiary of the Co-op Group which provides administrative and other services. A management charge is payable to cover the costs of these employee services.

Corporate responsibility and the environment

The Co-op Group 2018 Annual Report contains details of how the Co-op, including CISGIL and Co-op Insurances Services Limited (CISL), manages its social, ethical and environmental impacts.

All CISGIL proposed investments and suppliers are screened against the Ethical Policy, and existing investments are reviewed periodically to ensure ongoing compliance in four identified areas; Human Rights, Ecological Impact, International Development and Animal Welfare.

Statement of Going Concern

The Annual Report and Accounts are prepared on a going concern basis and the Directors are satisfied that CISGIL has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including future profitability, cash flows and capital resources.

It is not mandatory for CISGIL to comply, or report on its compliance, with the UK Corporate Governance Code. However, in previous years it has opted to disclose a viability statement. As the Co-op Group announced its intention to sell CISGIL to the Markerstudy group, CISGIL will not be providing a viability statement in this year's annual report and accounts.

Risk Management and Internal Controls

The Board has overall responsibility for CISGIL's internal control systems and for monitoring their effectiveness. Implementation and maintenance of the internal control systems are the responsibility of the Board and senior management.

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. The control framework cascades through the business, detailing clear responsibilities for ensuring appropriate controls are in place at an operational level, including controls relating to the financial reporting process. CISGIL's approach to Risk Management is set out in further detail on pages 49 to 57.

CISGIL's internal control systems are designed to manage, rather than eliminate, the risks of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the board has regard to materiality and to the relationship between the cost of, and benefits from, internal control systems.

Report of the Board of Directors

Risk Management and Internal Controls (continued)
On behalf of the Board, the Audit Committee regularly review the effectiveness of CISGIL's internal control systems. Its monitoring covers all material controls. Principally it reviews and challenges on an ongoing basis, reports from management, the internal audit function and external auditors. This enables it to consider how to manage or mitigate risk in line with CISGIL risk strategy. The Audit Committee did not identify or report any material failings to the Board in 2018.

Whenever any significant control weaknesses are identified actions are taken, or agreed plans are put in place and tracked by the Board to implementation.

Annual Report and Accounts
So far as the Directors are aware, there is no relevant audit information of which CISGIL's auditors are unaware, and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that CISGIL's auditors have been made aware of that information.

Statement of Directors' responsibilities in respect of the report of the Board of Directors and the annual report and accounts
The Directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations.

Co-operative and Community Benefit Society Law, as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 ('the Regulations'), requires the Directors to prepare accounts for each financial year. In accordance with the Regulations, the Directors have elected to prepare CISGIL accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

As required by Law, the Directors must not approve the report and accounts unless they are satisfied that they give a true and fair view of the state of affairs of CISGIL and of its profit or loss for that period. In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the accounts on the going concern basis unless it is appropriate to presume that CISGIL's will not continue in business.

The Directors are of the view that the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that disclose, with reasonable accuracy, at any time, the financial position of CISGIL and enable them to ensure that its accounts comply with the regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of CISGIL and to prevent and detect fraud and other irregularities.

Under applicable law, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that comply with the Regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Co-op Insurance website. Legislation in the UK governing the preparation and dissemination of annual report and accounts may differ from legislation in other jurisdictions.

By order of the Board
Chris Judd, Secretary
CIS General Insurance Limited
Miller Street
Manchester
M60 0AL

4 April 2019

Independent auditors report to the members of CIS General Insurance Limited

Opinion

In our opinion:

- CIS General Insurance Limited's group (the Group) financial statements and parent entity (the Society) financial statements (the financial statements) give a true and fair view of the state of the Society's affairs as at 31 December 2018 and of the Group's and Society's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Society financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which apply the provisions of chapters 4 and 5 of part 15 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modify and apply the Co-operative and Community Benefit Societies Act 2014, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of CIS General Insurance Limited which comprise the:

- Group and Society Income Statement
- Group and Society Statement of Comprehensive Income
- Group and Society Statement of Financial Position
- Group and Society Statement of Cash Flows
- Group and Society Statement of Changes in Equity
- Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and; as regards to the Society financial statements, as applied in accordance with the provisions of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which apply the provisions of chapters 4 and 5 of part 15 of the Companies Act 2006

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Inappropriate setting of claim reserves (specifically IBNR) and an unjustified basis for recognition and measurement of management margin.
Materiality	• Overall materiality of £2.6m which represents 1% of net assets of the Society.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate setting of claim reserves (specifically IBNR) and an unjustified basis for recognition and measurement of management margin (£478.6m, 2017 £496.7m) These amounts are gross of reinsurance. Refer to the Accounting policies (page 24); and Note 21 of the Financial Statements (page 36). The setting of insurance contract liabilities is inherently uncertain and has a material impact on the reported results. The subjectivity in setting the Best Estimate on both a gross and net basis and the recognition of a margin makes the liabilities susceptible to the risk of management over-ride. In addition to the subjectivity in the projections themselves, management carries a margin intended to bring the reserves to within the Board risk appetite of a 70-80% confidence level. The adopted reserve is highly judgemental as the margin is held to recognise liabilities and uncertainties that have not manifest through the available data.	We walked through the reserving process employed by management, paying particular attention to the setting of IBNR and management methodology including the setting of the margin; We tested the data used in the reserving process to ensure it was consistent with that which we had audited elsewhere Supported by our actuarial specialists, and using management's own data, we independently projected, on both a gross and net basis, the Best Estimate and a range of reasonable estimates. We investigated significant differences between our projections and management's Best Estimate for each reserving class. In addition, we challenged the level of margin held compared to market practice, prior periods and in the context of the areas of uncertainty for which the margin is held. We also tested, on a sample basis, that the reinsurance recoveries were recorded in line with the underlying contract terms.	We concluded that the data used for the purposes of the actuarial projections was consistent with the underlying policy records. Taken as a whole we consider the judgments applied in setting the Best Estimate reserves to be reasonable. We consider the booked reserves (i.e. the Best Estimate plus margin) to lie within a range of reasonable estimates on both a gross of reinsurance and a net of reinsurance basis.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Group financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we focused our procedures on the Society as this accounted for 100% of the year end net assets.

Changes from the prior year

There has been no change in scope from the prior year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group and Society to be £2.6 million (2017: £2.9 million), which is 1% (2017: 1%) of net assets. As the entity has a history of incurring losses we believe that net assets provide us with the appropriate basis that will enable us to identify misstatements that may influence the users of the financial statements. We believe that users of the financial statements are focused on the capital strength of the business and hence net assets is the IFRS metric that is most closely aligned to the focus of users of the financial statements.

During the course of our audit, we reassessed initial materiality and updated the amounts to reflect the net asset position at the year-end.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £1.3m (2017: £1.45m). We have set performance materiality at this percentage due to our assessment of the overall control environment.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £130,000 (2017: £145,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion in order to facilitate compliance by CIS General Insurance Limited's directors with the requirements relating to section 496 of the Companies Act 2006, as applied to CIS General Insurance Limited by Regulation 3 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Society and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 and the Companies Act 2006 as applied to the Society and as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 require us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- returns adequate for our audit have not been received from branches not visited by us; or
- a satisfactory system of control over transactions has not been maintained; or
- the financial statements are not in agreement with the Society's accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Society and determined that the direct laws and regulations relate to elements of company law and tax legislation, and the financial reporting framework
- We understood how the Society is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Society and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Society's approach to governance, demonstrated by the board of directors'' approval of the governance framework and the its review of the risk management framework ('RMF') and internal control processes.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Society's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with the FCA and PRA.
- We assessed the susceptibility of the Society's financial statements to material misstatement, including how fraud might occur by considering the controls that the Society has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgment, including complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, refer to the Key Audit Matters section regarding the risk of inappropriate setting of claim reserves. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- The Society operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the board of directors of The Co-operative Group ('the Co-op Group'), the Society's ultimate parent, as auditor to the Co-op Group and its subsidiaries on 21 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. Our most recent engagement letter with the Society was dated 22 January 2018.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 December 2016 to 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or Society and we remain independent of the Group and Society in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

Use of our report
This report is made solely to the Society's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied by the Society and as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 and to facilitate compliance with section 495 of the Companies Act 2006 and section 87 of the Co-operative and Community Benefits Societies Act 2014. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Giles Watson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
4 April 2019

Notes:
1. The maintenance and integrity of the CIS General Insurance Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group and Society Income Statement

For the year ended 31 December 2018

All amounts are stated in £m unless otherwise indicated

	Notes	Group 2018	Group 2017	Society 2018	Society 2017
Income					
Gross earned premiums		**483.0**	489.8	**483.0**	489.8
Less premiums ceded to reinsurers		**(159.5)**	(158.5)	**(159.5)**	(158.5)
Net earned premiums	2	**323.5**	331.3	**323.5**	331.3
Fee and commission income	3	**57.0**	59.7	**55.7**	59.7
Investment income	4	**11.5**	12.6	**12.3**	12.6
Gains less losses arising from financial instruments	5	**0.7**	2.8	**0.7**	2.8
Net income		**392.7**	406.4	**392.2**	406.4
Claims paid	6	**(359.0)**	(331.9)	**(359.0)**	(331.9)
Less amounts receivable from reinsurers	6	**84.4**	52.1	**84.4**	52.1
Net policyholder claims and benefits paid	6	**(274.6)**	(279.8)	**(274.6)**	(279.8)
Change in insurance contract liabilities	21c	**23.4**	(10.3)	**23.4**	(10.3)
Change in reinsurance assets	21c	**12.2**	53.9	**12.2**	53.9
Net policyholder claims and benefits incurred		**(239.0)**	(236.2)	**(239.0)**	(236.2)
Fee and commission expenses	7	**(27.8)**	(26.6)	**(27.8)**	(26.6)
Other acquisition expenses	8	**(32.9)**	(38.3)	**(32.9)**	(38.3)
Administration expenses	8	**(93.0)**	(94.6)	**(92.9)**	(94.6)
Finance costs		**(8.6)**	(8.6)	**(8.6)**	(8.6)
Profit/(loss) before business improvement costs, disposal and taxation		**(8.6)**	2.1	**(9.0)**	2.1
Costs in respect of business improvements	8	**(20.3)**	(23.0)	**(20.3)**	(23.0)
Loss before disposal and taxation		**(28.9)**	(20.9)	**(29.3)**	(20.9)
(Loss) on disposal of subsidiary		**(0.3)**	-	**-**	-
Loss before taxation		**(29.2)**	(20.9)	**(29.3)**	(20.9)
Income tax	10	**5.4**	4.0	**5.5**	4.0
Loss for the financial year		**(23.8)**	(16.9)	**(23.8)**	(16.9)

In November 2018, CISGIL disposed of its shareholding in Co-op Insurance Services Limited to Co-operative Group Limited.

The Group results above contain the consolidated results of CISGIL/the Society and its sole subsidiary for the 11 months to the date of disposal. More information regarding the basis of preparation can be found in note 1 to the consolidated financial statements.

Group and Society Statement of Comprehensive Income

For the year ended 31 December 2018
All amounts are stated in £m unless otherwise indicated

	Notes	Group and Society	
		2018	2017
Loss for the financial year		**(23.8)**	(16.9)
Items that are or may be reclassified to the income statement:			
Net changes in fair value in available for sale assets		**(8.7)**	(3.1)
Net gains transferred to the income statement for available for sale assets		**(0.7)**	(2.8)
Income tax	22	**1.7**	1.1
Other comprehensive expense for the financial year, net of income tax		**(7.7)**	(4.8)
Total comprehensive expense for the financial year		**(31.5)**	(21.7)

Group and Society Statement of Financial Position

For the year ended 31 December 2018
All amounts are stated in £m unless otherwise indicated

	Notes	**2018**	2017
Assets			
Property, plant and equipment	11	**0.5**	0.7
Intangible assets	12	**-**	1.6
Deferred acquisition costs	13	**29.4**	30.0
Reinsurance assets	21	**53.7**	58.5
Financial investments at fair value through income or expense	14	**156.0**	197.2
Available for sale assets	15	**669.5**	664.6
Current tax assets	22	**8.5**	8.5
Insurance receivables and other assets	16	**206.6**	204.5
Cash and cash equivalents	17	**5.1**	15.2
Total assets		**1,129.3**	1,180.8
Capital and reserves attributable to equity holders			
Share capital	18	**268.0**	268.0
Retained earnings	19	**(70.3)**	(46.5)
Other reserves	19	**63.6**	71.3
Total equity		**261.3**	292.8
Liabilities			
Insurance contract liabilities	21	**733.7**	749.9
Borrowed funds	20	**68.1**	67.9
Deferred tax liabilities	22	**3.4**	5.6
Reinsurance liabilities	23	**3.3**	3.8
Insurance and other payables	24	**51.4**	54.9
Overdrafts	17	**8.1**	5.9
Total liabilities		**868.0**	888.0
Total equity and liabilities		**1,129.3**	1,180.8

Approved by the Board of Directors on 4 April 2019 and signed on its behalf by:

Peter Hubbard, Chair

Damien Duffy, Chief Financial Officer

Chris Judd, Secretary

Group and Society Statement of Cash Flows

For the year ended 31 December 2018
All amounts are stated in £m unless otherwise indicated

		Group		Society	
	Notes	**2018**	2017	**2018**	2017
Cash flows from operating activities					
Loss before taxation		**(29.2)**	(20.9)	**(29.3)**	(20.9)
Adjustment for:					
Interest payable		**8.6**	8.6	**8.6**	8.6
Fixed asset depreciation		**0.1**	0.1	**0.1**	0.1
Tangible asset impairment		**0.1**	-	**0.1**	-
Intangible asset impairment		**1.6**	-	**1.6**	-
Investment income		**(11.5)**	(12.6)	**(12.3)**	(12.6)
Gains less losses arising from financial instruments		**(0.7)**	(2.8)	**(0.7)**	(2.8)
Decrease in deferred acquisition costs		**0.6**	0.7	**0.6**	0.7
Decrease/(increase) in reinsurance assets		**4.8**	(5.0)	**4.8**	(5.0)
Net (purchases)/proceeds of sale of financial instruments at value through income and expense		**41.2**	28.7	**41.2**	28.7
Increase in insurance receivables and other assets		**(3.8)**	(21.4)	**(3.8)**	(21.4)
(Decrease)/increase in insurance contract liabilities		**(16.2)**	26.5	**(16.2)**	26.5
Decrease in reinsurance liabilities		**(0.5)**	(2.8)	**(0.5)**	(2.8)
Investment interest received		**23.3**	21.7	**23.3**	21.7
Net (purchases)/proceeds of sales on investments held as AFS		**(23.8)**	11.6	**(23.8)**	11.6
Decrease increase in insurance and other payables		**(3.6)**	(18.3)	**(3.5)**	(18.3)
Income tax received	22	**5.0**	9.4	**5.0**	9.4
Net cash flows from operating activities		**(4.0)**	23.5	**(4.8)**	23.5
Cash flows from investing activities					
Dividend Received		**-**	-	**0.8**	-
Disposal of subsidiary		**0.1**	-	**0.1**	-
Net cash flows from investing activities		**0.1**	-	**0.9**	-
Cash flows from financing activities					
Interest paid		**(8.4)**	(8.4)	**(8.4)**	(8.4)
Net cash flows from financing activities		**(8.4)**	(8.4)	**(8.4)**	(8.4)
Net (decrease)/increase in cash and cash equivalents		**(12.3)**	15.1	**(12.3)**	15.1
Cash and cash equivalents at the beginning of the financial year		**9.3**	(5.8)	**9.3**	(5.8)
Cash and cash equivalents at the end of the financial year	17	**(3.0)**	9.3	**(3.0)**	9.3

Cash flows from operating activities

CISGIL classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows. This is because purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of claims incurred for insurance contracts, which are classified under operating activities.

Group and Society Statement of Changes in Equity

For the year ended 31 December 2018

All amounts are stated in £m unless otherwise indicated

	Group and Society				
	Share capital	**Available for sale reserve**	**Capital reserve**	**Retained earnings**	**Total**
2018					
Balance at the beginning of the financial year	**268.0**	**14.2**	**57.1**	**(46.5)**	**292.8**
Total comprehensive income/(expense) for the financial year:					
Loss for the year	**-**	**-**	**-**	**(23.8)**	**(23.8)**
Other comprehensive expense	**-**	**(7.7)**	**-**	**-**	**(7.7)**
Balance at the end of the financial year	**268.0**	**6.5**	**57.1**	**(70.3)**	**261.3**
2017					
Balance at the beginning of the financial year	268.0	19.0	57.1	(29.6)	314.5
Total comprehensive (expense)/income for the financial year:					
Transactions with owners recorded directly in equity:					
Loss for the year	-	-	-	(16.9)	(16.9)
Other comprehensive expense	-	(4.8)	-	-	(4.8)
Balance at the end of the financial year	268.0	14.2	57.1	(46.5)	292.8

1. Basis of preparation and significant accounting policies

CIS General Insurance Limited (CISGIL) is a Co-operative Society registered in England under the Co-operative and Community Benefit Societies Act 2014 and not a company registered under the Companies Act. The annual report and accounts were authorised for issue by the Board of Directors on 4 April 2019.

Statement of compliance

The annual report and accounts have been prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modify and apply the Co-operative and Community Benefit Societies Act 2014. The Regulations require CISGIL to prepare its annual report and accounts substantially as though it were a company registered under the Companies Act 2006 (the Act), and apply, with certain exemptions, the provisions of Parts 15 and 16 of the Act.

Basis of preparation

The annual report and accounts have been prepared on a going concern basis and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) guidance, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

The financial information has been prepared under the historic cost convention as modified by available for sale financial assets and other financial assets and financial liabilities held at fair value. CISGIL applies the recognition, measurement and disclosure requirements of IFRS in issue that are endorsed by the EU and are effective for accounting periods beginning on or after 1 January 2018.

Basis of consolidation

The consolidated financial statements comprise the financial statements of CIS General Insurance Limited and its subsidiary Co-op Insurance Services Limited up until its disposal in November 2018. As such the consolidated income statement contains the results of the Society and subsidiary for the 11 months to November 2018 and the Statement of Financial Position as at 31 December 2018 is not consolidated. In the comparative period both the Income Statement and the Statement of Financial Position were consolidated.

Adoption of new and revised standards

- IFRS 15 'Revenue recognition'

  In the current year, the Society has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018.

  IFRS 15 was issued in May 2014 (effective for annual periods beginning on or after 1 January 2018) and establishes a five-step model to account for revenue arising from contracts with customers, except for insurance contracts, financial instruments and lease contracts. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  Given insurance contracts are scoped out of IFRS 15, the main impact of the new standard relates to accounting for commission income.

  The implementation of the standard requires revenue under commission arrangements to be recognised on the basis of contractual performance obligations. The impact on the commission income streams of CISGIL are described below:

  Impact on commission

  The Society receives commission from a third party for policy administration fees it charges to customers for services such as policy amendments. All of CISGIL's performance obligations are met when it allows the third party to make adjustments in its administration of the policy. At this point CISGIL's commission income is recognised in full at the contracted rate. The resulting receivable to CISGIL is settled by the third party to contract terms of 30 days following the month end the service was completed. All obligations in respect of the service including obligations for returns, refunds and other similar obligations are completed by the third party. There is no warranty or related obligations liable by CISGIL.

  The Society receives commission from a third party for the sale of No Claims Discount protection provided and administered by the third party. The third party completes the sale and fulfils any future obligations. CISGIL receives commission which is recognised upon the sale as all CISGIL's obligations are met immediately. The resulting receivable to CISGIL is settled by the third party to contract terms of 30 days following the month end the transaction was completed. The CISGIL receivable is fixed per policy per contract terms with third party. CISGIL has no future obligation for the commission received on sale of that product through warranty or any other related obligations. Obligations for returns, refunds and other similar obligations are met by the third party.

  The Society's accounting policies for its revenue streams are disclosed below. The application of IFRS 15 has not changed the recognition or measurement of revenue compared to IAS 18.

1. Basis of preparation and significant accounting policies (continued)

Standards and interpretations issued but not yet effective

- IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Society applies the temporary exemption from IFRS 9 as permitted by the amendment to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' issued in September 2016. The temporary exemption permits the Society to continue applying IAS 39 rather than IFRS 9 for annual periods commencing before 1 January 2021.

The Society meets the eligibility criteria of the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. As at 31 December 2015, the Society's percentage of its gross liabilities connected with insurance represented 100% of its total liabilities. A reassessment of the eligibility criteria was completed as at 31 December 2018 and the Society continues to meet the conditions of the temporary exemption.

As at 31 December 2015, the gross liabilities connected with insurance relative to total liabilities were as follows:

Liability type	**£m**	**%**
Liabilities arising from contracts within the scope of IFRS 4	753.6	84
Debt instruments issued included in regulatory capital	67.7	7
Relevant tax liabilities	5.0	1
Relevant other liabilities	70.7	8

As at 31 December 2018, assets that would have been be categorised under IFRS 9 as 'Solely Payments of Principal and Interest' (SPPI) after the appropriate tests have been applied are 'Available For Sale' (AFS) assets under IAS 39, other receivables, and cash and cash equivalents. The credit ratings are as follows:

	AAA	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
As at 31 December 2018						
Available for sale assets	**117.9**	**339.5**	**207.3**	**4.8**	**-**	**669.5**
Other receivables	**0.8**	**2.4**	**2.9**	**-**	**2.9**	**9.0**
Cash and cash equivalents	**-**	**-**	**5.1**	**-**	**-**	**5.1**
	118.7	**341.9**	**215.3**	**4.8**	**2.9**	**683.6**
As at 31 December 2017						
Available for sale assets	136.6	316.3	206.7	5.0	-	664.6
Other receivables	1.8	2.3	3.5	-	3.2	10.8
Cash and cash equivalents	-	-	15.2	-	-	15.2
	138.4	318.6	225.4	5.0	3.2	690.6

Other receivables are financial assets within 'insurance receivables and other assets' in the Statement of Financial Position.

As at 31 December 2018, the fair values of classes of financial assets and the changes in fair value during the year are shown in the following table. The financial assets are divided into two categories:

(i) SPPI Assets - for which contractual cash flows represent solely payments of principal and interest, excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis.

(ii) All financial assets other than those specified in the SPPI Assets definition in (i) above.

All amounts are stated in £m unless otherwise indicated

Standards and interpretations issued but not yet effective (continued)

- IFRS 9 'Financial Instruments' (continued)

	SPPI financial assets		Other financial assets	
Asset type	**Fair value**	**Fair value change**	**Fair value**	**Fair value change**
Available for sale assets	**669.5**	**(9.4)**	**-**	**-**
Financial Investments at fair value through income or expense	**-**	**-**	**156.0**	**-**
Other receivables	**9.0**	**-**	**-**	**-**
Cash and cash equivalents	**5.1**	**-**	**-**	**-**
Total financial assets	**683.6**	**(9.4)**	**156.0**	**-**

The following table provides information on the fair value and carrying amount under IAS 39 for those SPPI assets which the Society has determined do not have a low credit risk. The carrying amount is measured in accordance with IAS 39 although this is prior to any impairment allowance for those measured at amortised cost. Assets graded BBB and below, or not rated are considered not to have a low credit risk.

Asset type	**Fair value**	**Carrying amount**
Available for sale assets	**4.8**	**4.8**
Other receivables	**2.9**	**2.9**
Cash and cash equivalents	**-**	**-**
Total	**7.7**	**7.7**

- IFRS 17 'Insurance Contracts'

  In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

  In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

  On 14 November 2018, the IASB Board agreed to start the process to amend IFRS 17 to defer the mandatory effective date of IFRS 17 by one year. Subject to IASB due process, entities will be required to apply IFRS 17 for annual periods beginning on or after the 1 January 2021.

  Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. CISGIL plans to adopt the new standard on the required effective date together with IFRS 9.

- IFRS 16 'Leases'

  IFRS 16 was issued in January 2016 (effective for annual periods beginning on or after 1 January 2019) and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

  IFRS 16 introduces a single accounting treatment for lessees similar to the treatment of finance leases under IAS 17. Under IFRS 16, all leases will be recognised on the balance sheet of the lessee, creating a right-of-use asset, and a liability for future payments. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset. Lessor accounting will remain much the same under IFRS 16 as it is under IAS17. Under IFRS 16, lease contracts are defined according to which party maintains control over the leased asset and receives the economic benefits. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

  The entity's assessment of the estimated impact of IFRS 16 shows that a right of use asset of approximately £3m and a financial liability of approximately £3m will be recognised in the financial statements. This assessment is based on current lease commitments with assumptions made about whether break clauses will be exercised or not.

All amounts are stated in £m unless otherwise indicated

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies

Use of estimates and judgments

The preparation of the annual report and accounts requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual report and accounts, are described within the significant accounting policies below.

Information about estimation uncertainty, that has the most significant effect on the amounts recognised in the annual report and accounts, relates to the determination of the ultimate liability arising from claims made under insurance contracts. Details of the methodology, key assumptions and sensitivities are provided in note 21 (b). Additionally further reference is made within the risk management section in relation to insurance risk on page 50.

In deriving the fair value of assets and liabilities the methods and assumptions used by the society are detailed within the fair values of financial assets and liabilities in note 30 (pages 62 to 64).

The accounting policies set out below have been applied consistently to all periods presented in these annual report and accounts. The accounting policies are split between insurance and non-insurance specific accounting policies. The insurance accounting policies are detailed in accounting policy 14 on pages 24 and 25. The major methods and assumptions used in estimating the fair values of financial instruments are detailed in note 30.

(1) Property, plant and equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight line basis to allocate the difference between cost and residual value over the estimated useful lives when assets are commissioned for use. Estimated useful lives are as follows:

• Computer equipment	3 – 10 years
• Furniture and equipment	5 – 10 years

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within operating expenses in the income statement.

Costs that are directly associated with the internal production of tangible assets that will generate future economic benefit are capitalised and recognised as tangible assets in the course of construction. Assets in the course of construction are only depreciated when they are commissioned for use.

(2) Intangible assets

Intangible assets comprise computer software together with the costs of development of the software.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring the software to use.

Costs that are directly associated with the internal production of software products that will generate future economic benefit are capitalised and recognised as intangible assets in the course of construction. Only costs which meet the definition of development costs under IAS 38 (Intangible Assets) are capitalised, with costs being capitalised only if the costs of the asset can be reliably measured, will generate future economic benefits and there is an ability to use the asset. Expenditure that is not directly attributable to the development of such assets is recognised in the income statement in the period to which it relates.

The expenditure capitalised includes direct employee costs and an appropriate portion of relevant direct overheads. Assets in the course of construction are transferred to computer software and amortised only when they are commissioned for use. Amortisation is charged to the income statement on a straight line basis to allocate the cost over the estimated useful life when commissioned for use, which is between three and ten years.

(3) Financial instruments

CISGIL classifies its financial assets (excluding derivatives) as either:

- available for sale; or
- financial assets at fair value through income or expense; or
- loans and receivables.

i) Recognition of financial assets and financial liabilities

Financial assets are recognised by CISGIL on the trade date which is the date it commits to purchase the instruments.

All other financial instruments are recognised on the date that they are originated.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

(3) Financial instruments (continued)

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when there is a qualifying transfer and:

- the rights to receive cash flows from the assets have ceased; or
- CISGIL has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

iii) Financial assets classified as available for sale

CISGIL classifies its holdings in debt securities as available for sale. Initial measurement is at fair value, being purchase price upon the date on which CISGIL commits to purchase plus directly attributable transaction costs.

Subsequent valuation is at fair value with movements recognised in other comprehensive income as they arise. Interest is recognised on the effective interest rate basis in the income statement, refer to accounting policy note 9 (page 23) for further details. Where there is evidence of impairment, the extent of any impairment loss is recognised in the income statement. For further information refer to accounting policy note 3(vii) on page 21. An effective interest rate for each holding is calculated on initial recognition and subsequently recognised in the income statement over the lifetime of the bond.

On disposal, gains or losses previously recognised in other comprehensive income are transferred to the income statement.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and CISGIL does not intend to sell immediately or in the near term. For CISGIL this includes insurance premium debt receivables but excludes salvage and subrogation. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently these are measured at amortised cost. The amortised cost is the initial amount at recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, less impairment provisions for incurred losses.

v) Financial investments at fair value through income or expense

Investments, other than those in debt securities, are designated as financial assets at fair value through income or expense, where they are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally to key management personnel on that basis. Initial measurement is at fair value, being purchase price upon the date on which CISGIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition.

Subsequent valuation is at fair value with changes in fair value being recognised in gains less losses within the income statement in the period in which they arise. Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques.

(vi) Financial liabilities

Financial liabilities are contractual obligations to deliver cash or other financial assets. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost.

Borrowed funds

Financial liabilities primarily represent borrowed funds. Borrowings are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

vii) Impairment of financial assets

Assessment

At the statement of financial position date, CISGIL assesses its financial assets not carried at fair value through income or expense for objective evidence that an impairment loss has occurred.

Objective evidence that financial assets are impaired can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

(3) Financial instruments (continued)

Measurement

Any impairment losses on assets classified as available for sale, and those carried at amortised cost, are recognised immediately through the income statement. The amount of the loss is the difference between:

- the asset's carrying amount (calculated on an amortised cost basis); and
- the present value of estimated future cash flows (discounted at the asset's original or variable effective interest rate for amortised cost assets or at the current market rate for available for sale assets).

Impairment of financial assets classified as available for sale

Impairment losses are recognised by transferring the cumulative loss that has been recognised through other comprehensive income to the income statement.

When a subsequent event causes the amount of impaired loss on available for sale investment securities to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

Impairment of financial assets carried at amortised cost

The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write off is made when all or part of an asset is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write off charge in the income statement once they are received.

Provisions are released at the point when it is deemed that following a subsequent event the risk of loss has reduced to the extent that a provision is no longer required.

viii) Gains less losses arising from financial assets

Gains less losses arising from financial assets represents unrealised fair value movements of assets held at fair value through income or expense as well as realised gains/losses on available for sale assets.

(4) Sale and repurchase arrangements

CISGIL participates in reverse sale and repurchase transactions whereby CISGIL buys gilts but is contractually obliged to sell them at a fixed price on a fixed future date. Cash loaned under reverse repo arrangements are classified as deposits with credit institutions within financial investments at fair value through income or expense on the statement of financial position.

(5) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Banking facilities that are repayable on demand and form an integral part of CISGIL cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(6) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

IFRS 4 prohibits the offsetting of reinsurance assets against the related insurance liabilities, unless the appropriate legal requirements are met. Financial assets and liabilities arising under the quota share arrangements are offset and the net amount reported in the statement of financial position as there is a legally enforceable right to set off the amounts, and there is an intention to settle on a net basis. The contractual terms of the funds-withheld quota share agreement require such a set-off of associated amounts.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

viii) Gains less losses arising from financial assets (continued)

(7) Impairment of non-financial assets

The carrying value of CISGIL's non-financial assets, excluding deferred tax assets and reinsurance assets, are reviewed at the statement of financial position date to determine whether there is any indication of impairment. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use is assessed by reference to discounted future cash flows) is estimated.

An impairment loss is recognised in the income statement to the extent that the carrying value of an asset exceeds its recoverable amount. An impairment loss is reversed if there has been an increase in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(8) Provisions

A provision is recognised in the statement of financial position if CISGIL has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(9) Revenue recognition

Revenue principally comprises:

Premium income from insurance contracts

CISGIL's accounting policy in respect of revenue arising from insurance contracts is set out within the insurance specific accounting policy note 14(i) on page 24.

Investment income

Interest income on financial assets designated as available for sale and loans and receivables are recognised within investment income on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate.

The EIR basis spreads the interest income over the expected life of the instrument. The EIR is the rate that, at inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating EIR, CISGIL estimates cash flows considering all contractual terms of the instrument (for example prepayment options) but does not consider future credit losses.

Interest income on assets designated as fair value through income or expense is recognised within investment income in the income statement as it accrues on an effective interest rate basis.

Dividend income

Dividend income is recognised when the right to receive the payment is established, which is generally when the Directors approve the dividend as final. Interim dividends are recognised when the dividend is paid.

Fee and commission income

Fees and commission receivable mainly relates to administration fee income, and brokerage commission received for products and services administered by third parties.

Revenue is recognised as the Group satisfies the related performance obligation in accordance with IFRS 15. In the case of services such as policy administration fees, CISGIL's performance obligations are met when the third party makes adjustments in its administration of the policy. At this point CISGIL's commission income is recognised in full at the contracted rate. The resulting receivable to CISGIL is settled by the third party to contract terms of 30 days following the month end the service was completed.

Commission receivable on third party product sale such as No Claims Discount Protection is recognised upon the sale as all CISGIL's obligations are met immediately. The resulting receivable to CISGIL is settled by the third party to contract terms of 30 days following the month end the transaction was completed. The CISGIL receivable is fixed per policy per contract terms with third party.

Profit commission due under reinsurance arrangement

Profit commission due under reinsurance arrangements is recognised in the income statement in line with the associated premiums ceded and ceded incurred claim costs, in accordance with the contractual terms to which they are subject.

(10) Fee and commission expenses

Fees and commission payable mainly relates to commission payable to insurance intermediaries that is recognised over the lifetime of the related policy. All other fees and commission payable is recognised on an accruals basis as the service is provided.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

viii) Gains less losses arising from financial assets (continued)

(11) Income tax

Tax in the income statement for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(12) Foreign currencies

The functional and presentational currency for CISGIL is sterling. Substantially all transactions conducted by CISGIL are in sterling. All amounts presented are stated in pound sterling and millions, unless stated otherwise.

(13) Dividends to shareholders

Dividends are only recognised in the annual report and accounts by CISGIL once they have been approved by the shareholders in a general meeting.

(14) Insurance accounting policies

Contracts under which CISGIL accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. A contract that qualifies as insurance remains an insurance contract until all the risks and obligations are extinguished or expire.

All contracts of general insurance business written by CISGIL are classified as insurance contracts. General insurance business is accounted for on an annual basis.

i) Premiums

Gross written premiums comprise premiums receivable on those contracts which incepted during the financial year, irrespective of whether they relate in whole or in part to a later accounting period, together with any adjustments in the accounting period relating to premium receivable in respect of business written in prior periods.

Gross written premiums:

- are stated gross of commission and exclude any taxes or levies based on premiums;
- include an estimate for cancellations for those renewal contracts which incepted prior to the year-end but which may be cancelled after the statement of financial position date; and
- include an estimate of pipeline premium, using historic average trends.

Gross written premium (whether paid in advance or by instalments) is earned evenly over the period of the contract.

ii) Unearned premium provision

For general insurance business, the proportion of written premiums relating to periods of risk beyond the year end is carried forward to future accounting periods. The relevant proportion is calculated using the daily pro rata basis.

Outward reinsurance premiums are treated as earned in accordance with the profile of the reinsured contracts.

iii) Claims incurred

Insurance claims incurred comprises claims paid during the year, together with related claims handling costs and the change in the gross liability for claims in the period net of related recoveries including salvage and subrogation.

1. Basis of preparation and significant accounting policies (continued)

Significant accounting policies (continued)

(14) Insurance accounting policies (continued)

iv) Claims outstanding

Claims outstanding comprises provisions representing the estimated ultimate cost of settling:

- estimates on claims reported by the statement of financial position date ('claims reported'); and
- expected additional cost in excess of claims reported for all claims occurring by the statement of financial position date ('claims incurred but not reported').

Aggregate claims provisions, which include attributable claims handling expenses, are set at a level such that no adverse or positive run off deviations are expected. Adverse run off deviations, which are material in the context of the business as a whole, would be separately disclosed in the notes to the annual report and accounts including the claims development tables.

Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are disclosed separately within assets under the headings of 'reinsurance assets' and 'insurance receivables and other assets' respectively.

Outstanding reserves are discounted in respect of periodical payments and a portion of historic liability claims from the electric industry for which separate assets are held of appropriate term and nature.

v) Unexpired risk provision

Additional provision is made for unexpired risks where the claims and expenses, likely to arise after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums less deferred acquisition costs carried forward for those contracts.

Unexpired risk provision is calculated for each category of business. Where categories of business are managed together a combined calculation is performed. Surpluses and deficits within each category are offset within the calculation. The provision is determined after taking account of future investment return arising on investments supporting the unearned premium provision and unexpired risk provision. No unexpired risk reserve is recognised.

Such provisions seek to ensure that the carrying amount of unearned premiums provision less related deferred acquisition costs is sufficient to cover the current estimated future cash flows, including claims handling expenses and therefore meets the requirements of the liability adequacy test as set out in IFRS 4 (Insurance Contracts).

vi) Acquisition costs

Costs directly associated with the acquisition of new business, including commission, are capitalised and amortised in accordance with the rate at which the gross written premiums associated with the underlying contract are earned.

vii) Reinsurance

Contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same period as the related claim. Premiums, claims and receivables are presented on a gross basis in the income statement and statement of financial position.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

viii) Quota share

The quota share reinsurance contract transfers insurance risk on a proportional basis. The income statement is shown net of premiums ceded, claims recoverable and commission earned under this arrangement. See Note 9 Segmental analysis.

Premiums ceded are held in a notional funds withheld account, against which claims paid recoveries, earned commission and margin paid, are deducted. The funds withheld balance is offset against expected recoveries for claims outstanding and future profit commission in the statement of financial position.

For the purposes of classification in the income statement, commutation of the contract is not assumed, such that future recoveries in the funds withheld account are recognised against claims incurred. At the point of commutation, outstanding recoveries in the funds withheld account would be earned as further commission.

(15) Costs in respect of business improvements

The costs associated with the programme of activity to strategically improve the business are charged to the income statement as incurred, with recognition of assets where the recognition criteria are met.

Costs that are capitalised would be held within the asset section of the statement of financial position and be amortised in accordance with CISGIL stated policies.

As the programme of activity is intended to fundamentally change the way the organisation operates, it is deemed appropriate to treat the expensed costs separately within the income statement as an exceptional item.

All amounts are stated in £m unless otherwise indicated

2. Net earned premiums

	Group and Society	
	2018	2017
Gross premiums		
Gross written premiums	**485.1**	496.1
Change in unearned premium provision	**(2.1)**	(6.3)
Gross earned premiums	**483.0**	489.8
Outward reinsurance premiums		
Premiums ceded	**(159.7)**	(158.5)
Change in unearned premium provision	**0.2**	-
Premiums ceded to reinsurers	**(159.5)**	(158.5)
Net earned premiums	**323.5**	331.3

See note 9 for explanation of the quota share impact to net earned premium.

3. Fee and commission income

	Group		Society	
	2018	2017	**2018**	2017
Fee income	**15.5**	15.0	**14.2**	15.0
Reinsurance commission earned	**40.4**	43.4	**40.4**	43.4
Other commission	**1.1**	1.3	**1.1**	1.3
	57.0	59.7	**55.7**	59.7

Fee income is in respect of policy administration fees and commission from third party arrangements and is considered revenue from contracts with customers per IFRS 15.

Other commission is in respect of ancillary income from aggregator business and is also considered revenue from contracts with customers per IFRS 15. For further details see *Fee and Commission income* on page 23.

The Group disaggregates revenue from contracts with customers per IFRS 15 by contract type, depicting the nature, amount, and timing of cash flows.

Fee Income is in respect of Motor £13.8m (2017: £12.7m) and Other £1.7m (2017: £2.2m). Other Commission is in respect of Motor £1.1m (2017: £1.3m).

See note 9 for explanation of the quota share impact to reinsurance commission earned.

4. Investment income

	Group		Society	
	2018	2017	**2018**	2017
Interest and similar income from assets held at fair value through income or expense:				
Deposits with credit institutions	**0.9**	0.4	**0.9**	0.4
	0.9	0.4	**0.9**	0.4
Interest income (calculated using Effective Interest Rate) from available for sale assets:				
Listed debt securities	**10.6**	12.2	**10.6**	12.2
	11.5	12.6	**11.5**	12.6
Dividend Income	**-**	-	**0.8**	-
	11.5	12.6	**12.3**	12.6

All amounts are stated in £m unless otherwise indicated

5. Gains less losses arising from financial instruments

	Group and Society	
	2018	2017
Net gains arising on financial assets:		
Available for sale listed debt securities	**0.7**	2.8
	0.7	2.8

6. Net policyholder claims and benefits paid

	Group and Society	
	2018	2017
Gross claims paid		
Current year claims	**216.8**	186.9
Prior year claims	**190.8**	184.0
Gross claims paid	**407.6**	370.9
Less salvage and subrogation		
Current year claims	**(25.2)**	(21.9)
Prior year claims	**(23.4)**	(17.1)
Salvage and subrogation received	**(48.6)**	(39.0)
Claims paid	**359.0**	331.9
Less amounts receivable from reinsurers		
Current year claims	**(55.6)**	(47.7)
Prior year claims	**(28.8)**	(4.4)
Amounts receivable from reinsurers	**(84.4)**	(52.1)
Net policyholder claims and benefits paid	**274.6**	279.8

7. Fee and commission expenses

	Group and Society	
	2018	2017
Commission paid	**29.9**	26.7
Change in deferred commission	**(2.1)**	(0.1)
	27.8	26.6

8. Operating expenses

	Group		Society	
	2018	2017	**2018**	2017
Other acquisition expenses	**32.9**	38.3	**32.9**	38.3
Administration expenses	**93.0**	94.6	**92.9**	94.6
Costs in respect of business improvements	**20.3**	23.0	**20.3**	23.0
Operating Expenses	**146.2**	155.9	**146.1**	155.9

CISGIL does not have any employees; all sales are effected by employees of the Co-operative Group or CFS Management Services Limited (CFSMS) which also provides some administration and other services. These businesses are also responsible for the remuneration of CISGIL directors. CISGIL incurs a management service charge from CFSMS, at cost. Key management compensation is disclosed in note 29.

Included within the administration expenses is £3.8m (2017: £5.8m) paid by CISGIL in respect of regular pension contributions, which includes nil (2017: £1.9m) in respect of the Co-operative Group pension scheme (Pace) scheme deficit funding.

The Trustee formally reviews the pension funding position every three years and, where there is a deficit, agrees a funding recovery plan with the Group. Group determines the proportion of the deficit recovery contributions required by each participating employer. It currently does this using an approximate estimate of each employer's share of the Pace Scheme liabilities.

8. Operating expenses (continued)

CISGIL is not a participating employer in Pace. CFSMS is the participating employer and CISGIL has an agreement with CFSMS to pay any amounts allocated to CFSMS which are in respect of current or past employees of CFSMS who were or are assigned to work for CISGIL.

	2018 £'000	2017 £'000
Audit of these financial statements	**279.0**	235.0
Audit-related assurance services	**22.0**	22.0
Amounts receivable by CISGIL's auditor and its associates in respect of:		
Other assurance services	**74.0**	71.0
	375.0	328.0

Other assurance services relate to assurance provided on CISGIL's Solvency II reporting. Audit-related assurance services are the half year review of interim financial information for consolidation into the Interim Report for the Co-operative Group.

9. Segmental analysis

CISGIL evaluates the performance of business segments on a number of metrics, of which the combined operating ratio has primary focus.

Overall CISGIL performance is evaluated on the basis of profit or loss from operations before tax attributable to shareholders, adjusted for non-operating items outside the control of the management, including variances in investment performance resulting from significant changes in external market conditions.

There is no geographic segmental reporting as all business is conducted in the UK. Revenues are attributed to the business segments in which they are generated.

Segmental results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies.

Business segments

CISGIL comprises the following segments:

- **Motor** – Private motor car and motor cycle, individual commercial vehicles.
- **Home** – Domestic buildings, contents and personal possessions.
- **Other** – Commercial risks covering property, liability, financial loss, and motor fleet. Other minor personal risks, pet, run off inwards reinsurance liabilities and finance costs.

All amounts are stated in £m unless otherwise indicated

9. Segmental analysis (continued)

Segmented income statement for the year ended 31 December 2018 in respect of Group

	Motor	**Home**	**Other**	**Quota Share**	**Total**
Net earned premiums	355.9	106.4	-	(138.8)	323.5
Net claims incurred	(267.3)	(70.1)	(2.5)	100.9	(239.0)
Net fee and commission (expenses)/income	(2.1)	(10.8)	1.7	40.4	29.2
Operating expenses	(81.8)	(41.0)	(2.0)	-	(124.8)
Underwriting result	**4.7**	**(15.5)**	**(2.8)**	**2.5**	**(11.1)**
Net investment return	11.3	(0.2)	-	-	11.1
Other expenses	(7.2)	(1.2)	(0.2)	-	(8.6)
Segmented operating (loss)/profit	**8.8**	**(16.9)**	**(3.0)**	**2.5**	**(8.6)**
Costs in respect of business improvements					(20.3)
Loss on disposal of subsidiary					(0.3)
Loss before tax					**(29.2)**
In force policy count (Individual policies held)	**799,304**	**547,063**	**-**	**-**	**1,346,367**
Gross written premiums	375.1	110.0	-	-	485.1
Claims ratio	75.1%	65.9%	-	-	73.9%
Commission and expense ratio	23.6%	48.7%	-	-	29.9%
Combined operating ratio	98.7%	114.5%	-	-	103.8%

Segmented income statement for the year ended 31 December 2017

	Motor	Home	Other	Quota Share	Total
Net earned premiums	361.1	111.9	0.2	(141.9)	331.3
Net claims incurred	(275.5)	(51.4)	(3.8)	94.5	(236.2)
Net fee and commission (expenses)/income	(3.4)	(9.1)	2.1	43.4	33.0
Operating expenses	(88.6)	(42.3)	(1.0)	-	(131.9)
Underwriting result	(6.4)	9.1	(2.5)	(4.0)	(3.8)
Net investment return	14.6	(0.1)	(0.1)	-	14.4
Other expenses	(7.3)	(1.1)	(0.1)	-	(8.5)
Segmented operating (loss)/profit	0.9	7.9	(2.7)	(4.0)	2.1
Costs in respect of business improvements					(23.0)
Loss before tax					(20.9)
In force policy count (Individual policies held)	775,065	580,072	-	-	1,355,137
Gross written premiums	378.4	117.6	0.1	-	496.1
Claims ratio	76.4%	45.9%	-	-	71.3%
Commission and expense ratio	25.5%	46.0%	-	-	29.9%
Combined operating ratio	101.8%	91.8%	-	-	101.2%

All amounts are stated in £m unless otherwise indicated

9. Segmental analysis (continued)

Reconciliation of segmental income to statutory income statement

Net earned premiums and claims are reported on a consistent basis for segmental and statutory reporting purposes.

	2018	2017
Commission expenses		
Net fee and commission expense from segmented income statement	**29.2**	33.0
Reclassified Fee and commission income per income statement	**(57.0)**	(59.6)
Fee and commission expenses within income statement	**(27.8)**	(26.6)
Segmental income statement operating expenses		
Total operating expenses from segmented income statement	**(124.8)**	(131.9)
Reclassification of investment expenses	**(1.1)**	(1.0)
Other acquisition and administration expenses within income statement	**(125.9)**	(132.9)
Investment return		
Net investment return from segmented income statement	**11.1**	14.4
Reclassification of investment expenses to operating expenses	**1.1**	1.0
Analysed as below in the income statement	**12.2**	15.4
Investment income within income statement	**11.5**	12.6
Gains less losses arising from financial instruments per income statement	**0.7**	2.8
Income Statement	**12.2**	15.4
Other expenses for segmented income statement is made up of:		
Costs in respect of business improvements	**(20.3)**	(23.0)
Finance costs	**(8.6)**	(8.6)
	(28.9)	(31.6)

All amounts are stated in £m unless otherwise indicated

10. Income tax

	Group		Society	
	2018	2017	**2018**	2017
Current tax				
UK tax credit for the current year	**4.6**	3.1	**4.7**	3.1
UK tax adjustments in respect of prior years	**-**	0.1	**-**	0.1
Adjustment to historic Group Relief balance	**-**	0.1	**-**	0.1
Total current tax credit	**4.6**	3.3	**4.7**	3.3
Deferred tax				
Origination and reversal of temporary differences	**0.9**	0.8	**0.9**	0.8
Effect of tax rate change	**(0.1)**	-	**(0.1)**	-
Adjustments in respect of prior years	**-**	(0.1)	**-**	(0.1)
Total deferred tax credit	**0.8**	0.7	**0.8**	0.7
Total tax credit recognised in the income statement	**5.4**	4.0	**5.5**	4.0

Further information about deferred tax is presented in note 22.

Reconciliation of effective tax rate

The tax charge in the income statement differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

	Group		Society	
	2018	2017	**2018**	2017
Loss before taxation	**(29.2)**	(20.9)	**(29.3)**	(20.9)
Tax calculated at domestic corporation tax rate of 19% (2017: 19.25%)	**5.5**	4.0	**5.6**	4.0
Effect of:				
Expenses not deductible for tax	**(0.3)**	(0.1)	**(0.3)**	(0.1)
Fixed Assets: Non-qualifying depreciation, amortisation and loss on disposal	**(0.3)**	-	**(0.3)**	-
Adjustment to historic Group Relief balance	**-**	0.1	**-**	0.1
Receipt for Group Relief	**0.6**	-	**0.6**	-
Revision of deferred tax to 17.71% (2017: 17.53%)		-		-
Change in tax rate	**(0.1)**	-	**(0.1)**	-
Income tax credit	**5.4**	4.0	**5.5**	4.0

All amounts are stated in £m unless otherwise indicated

11. Property, plant and equipment

2018	Fixtures & Fittings	Assets in course of construction	Total
Cost			
At the beginning of the financial year	**0.9**	**0.1**	**1.0**
Additions	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Impairment	**-**	**(0.1)**	**(0.1)**
At the end of the financial year	**0.9**	**-**	**0.9**
Depreciation			
At the beginning of the financial year	**0.3**	**-**	**0.3**
Depreciation charge for the financial year	**0.1**	**-**	**0.1**
Disposals	**-**	**-**	**-**
At the end of the financial year	**0.4**	**-**	**0.4**
Carrying amount			
At the end of the financial year	**0.5**	**-**	**0.5**
At the beginning of the financial year	**0.6**	**0.1**	**0.7**

2017	Fixtures & Fittings	Assets in course of construction	Total
Cost			
At the beginning of the financial year	0.9	0.1	1.0
Additions	-	-	-
Disposals	-	-	-
At the end of the financial year	0.9	0.1	1.0
Depreciation			
At the beginning of the financial year	0.2	-	0.2
Depreciation charge for the financial year	0.1	-	0.1
Disposal	-	-	-
At the end of the financial year	0.3	-	0.3
Carrying amount			
At the end of the financial year	0.6	0.1	0.7
At the beginning of the financial year	0.7	0.1	0.8

Assets in course of construction consisted of expenditure in relation to CISGIL's Solvency II regulatory capital internal model. As at 31 December 2018 the recoverable value was deemed to be nil and therefore the full amount has been impaired.

The impairment charge has been recognised in the Income Statement within 'costs in respect of business improvements'.

All amounts are stated in £m unless otherwise indicated

12. Intangible Assets

2018	Computer Software	Assets in course of construction	Total
Cost			
At the beginning of the financial year	**0.1**	**1.6**	**1.7**
Additions	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Impairment	**-**	**(1.6)**	**(1.6)**
At the end of the financial year	**0.1**	**-**	**0.1**
Amortisation			
At the beginning of the financial year	**0.1**	**-**	**0.1**
Amortisation charge for the financial year	**-**	**-**	**-**
At the end of the financial year	**0.1**	**-**	**0.1**
Carrying amount			
At the end of the financial year	**-**	**-**	**-**
At the beginning of the financial year	**-**	**1.6**	**1.6**

2017	Computer Software	Assets in course of construction	Total
Cost			
At the beginning of the financial year	0.1	1.6	1.7
Additions	-	-	-
At the end of the financial year	0.1	1.6	1.7
Amortisation			
At the beginning of the financial year	0.1	-	0.1
Amortisation charge for the financial year	-	-	-
At the end of the financial year	0.1	-	0.1
Carrying amount			
At the end of the financial year	-	1.6	1.6
At the beginning of the financial year	-	1.6	1.6

Assets in course of construction consisted of expenditure in relation to CISGIL's Solvency II regulatory capital internal model. As at 31 December 2018 the recoverable value was deemed to be nil and therefore the full amount has been impaired.

The impairment charge has been recognised in the Income Statement within 'costs in respect of business improvements'.

13. Deferred acquisition costs

	2018	2017
At the beginning of the financial year	**30.0**	30.7
Deferred acquisition cost additions	**60.2**	60.7
Amortisation	**(60.8)**	(61.4)
At the end of the financial year	**29.4**	30.0

All amounts in the current and prior year are expected to be recovered within one year.

All amounts are stated in £m unless otherwise indicated

14. Financial investments at fair value through income or expense

	2018	2017
Cash deposits with credit institutions; and	**-**	49.5
Reverse repo arrangement with credit institutions	**156.0**	147.7
Cash deposits and reverse repo arrangements with approved credit institutions	**156.0**	197.2

All amounts in the current and prior year are expected to be recovered within one year. Within the above are secured deposits of £156.0m (2017: £147.7m). Collateral of £156.0m, in the form of gilts is held against these deposits. Please see the credit risk note on pages 54 to 55 for further details.

This category comprises short term fixed rate deposits which are designated as fair value through income and expense upon initial recognition.

Under IFRS 9, these instruments would fail the 'Solely Payments of Principal and Interest' (SPPI) test and would be classified as held for trading as they are managed on a fair value basis.

15. Available for sale assets

	2018	2017
Listed debt securities - fixed rate	**528.4**	543.6
Listed debt securities - floating rate	**141.1**	121.0
	669.5	664.6

At 31 December 2018, debt securities of £440.4m (2017: £453.6m) are expected to be recovered more than 12 months after the reporting date.

16. Insurance receivables and other assets

	2018	2017
Receivables arising from insurance:		
Arising from insurance operations	**154.0**	158.5
Salvage and subrogation recoveries	**38.4**	33.3
Reinsurance ceded	**0.1**	0.2
Other receivables:		
Accrued interest	**6.3**	9.4
Prepayments with third parties	**4.1**	1.2
Prepayments with Group companies	**1.0**	0.5
Other receivables	**2.7**	1.4
	206.6	204.5

Comparatives have been re-presented to align with current year classification.

No amounts are due after more than one year.

Receivables arising from insurance operations are stated net of an impairment provision of £0.2m (2017: £0.5m). The provision is calculated based on an assessment of insurance receivables for objective evidence that an impairment loss has been incurred. Any adjustment to the level of the provision is recorded within the income statement as an adjustment to written premium.

Amounts overdue but not impaired are nil (2017: £0.1m). For 2017 all amounts were less than 3 months past due.

Assets past due typically comprise high volume/low value balances for which CISGIL does not seek collateral but continues to work with counterparties to secure settlement.

Amounts receivable relating to contracts with customer under IFRS 15 are £1.3m (2017: £1.5m).

All amounts are stated in £m unless otherwise indicated

17. Cash and cash equivalents

	2018	2017
Cash and cash equivalents	**5.1**	15.2
Overdrafts	**(8.1)**	(5.9)
Net cash and cash equivalents	**(3.0)**	9.3

This balance is included as cash and cash equivalents for the purpose of the statement of cash flows. The credit balance represents the net position across the societies various bank accounts.

18. Share capital

	2018	2017
Authorised		
	268.0	268.0
Issued and fully paid		
268,000,000 ordinary shares of £1 each	**268.0**	268.0

Each shareholder has one vote and an additional vote for every 50 shares or fraction or part held by it in excess of the first 50 shares held.

19. Retained earnings and other reserves

	2018	2017
Retained earnings		
At the beginning of the financial year	**(46.5)**	(29.6)
Loss for the financial year	**(23.8)**	(16.9)
At the end of the financial year	**(70.3)**	(46.5)

	2018	2017
Other reserves		
Available for Sale	**6.5**	14.2
Capital Reserves	**57.1**	57.1
	63.6	71.3

Any retained earnings would represent amounts available for dividend distribution to the equity shareholder of CISGIL, subject to certain conditions being met.

The capital reserve represents a non-refundable capital contribution from the former parent company, the Co-operative Banking Group Limited, and is distributable.

20. Borrowed funds

	2018	2017
Callable dated deferrable tier two notes	**68.1**	67.9
	68.1	67.9

On 8th May 2015, CIS General Insurance Ltd issued £70m of Callable Dated Deferrable Tier Two Notes due 2025 at par, charged at 12% interest.

There have been no defaults or breaches of contractual obligations attaching to the subordinated debt during the financial year.

Finance costs incurred during the financial period include £8.6m (2017: £8.6m) in relation to interest on the subordinated debt.

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets

(a) Analysis of insurance contract liabilities

	2018	2017
Gross		
Claims reported	**403.3**	412.5
Claims incurred but not reported	**75.3**	84.2
Claims settlement expenses	**11.4**	11.6
Unearned premiums	**243.7**	241.6
Total gross insurance liabilities	**733.7**	749.9
Recoverable from reinsurers		
Claims reported	**(106.4)**	(87.3)
Claims incurred but not reported	**(13.2)**	(20.1)
Unearned premiums	**(0.2)**	-
Quota Share*	**66.1**	48.9
Total reinsurers' share of insurance liabilities	**(53.7)**	(58.5)
Net		
Claims reported	**296.9**	325.2
Claims incurred but not reported	**62.1**	64.1
Claims settlement expenses	**11.4**	11.6
Unearned premiums	**243.5**	241.6
Quota Share*	**66.1**	48.9
Total net insurance liabilities	**680.0**	691.4

Reinsurance is used to limit risk to the statement of financial position for the various classes of general insurance business. Proportional and non-proportional types of reinsurance cover have been purchased in accordance with assumptions made regarding the possible levels of losses and required returns on equity.

* Quota share recoverable amounts are shown net of amounts payable in the Statement of Financial Position. See accounting policies note 14 viii) on page 25 for details.

The balance in the quota share funds withheld account is £63.4m (2017: £53.0m).

(b) General insurance contracts – assumptions, changes in assumptions and sensitivity

i) Basis of assessing liabilities

CISGIL uses a combination of recognised actuarial and statistical techniques to assess the ultimate cost of claims. These include:

- projecting historic claims payment and recoveries data;
- projecting numbers of claims;
- deriving average costs per claim to apply to claim numbers; and
- projecting historic claims paid and incurred data (payment plus estimates) – statistical actuarial techniques including chain ladder, Bornhuetter-Ferguson and Cape Cod.

21. Insurance contract liabilities and reinsurance assets (continued)

(b) General insurance contracts – assumptions, changes in assumptions and sensitivity (continued)

Detailed claims data, including individual case estimates, is used to derive patterns in average claims costs and timings between occurrence and estimate/payment of claims. The most common method used is the chain ladder method. This technique involves the analysis of historical claims development trends and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident quarter which is not yet fully developed to produce an estimated ultimate claims cost for each accident quarter. A degree of judgment is required in selecting the most appropriate development factors.

The chain ladder method can be volatile for relatively undeveloped origin periods so a Bornhuetter-Ferguson/Cape Cod method is often used in such cases. This method uses some prior expectation of the ultimate claims, and stabilises the projected ultimate by weighting between the prior expected ultimate and the projected based on the assumed development factors. The Cape Cod method differs from the Bornhuetter-Ferguson method in that it uses a trending of ratios (such as the average cost) to arrive at a prior expected ultimate for use in the projections.

The work is undertaken and supervised by suitably qualified personnel. Claims provisions are separately computed for each claim type such as bodily injury, accidental damage, storm, flood and subsidence. All provisions are calculated with explicit allowance for reinsurance and subrogation recoveries. Provisions are not discounted for investment return other than any required additional provision for unexpired risks, periodic payment settlements and provisions relating to exposure within the electric industry.

Discounted reserves in respect of periodic payment settlements are £49.7m (2017: £45.1m) and historic liability claims from the electric industry discounted reserve amounts to £2.6m (2017: £2.7m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the market risk section on pages 51 to 52.

The historic liability claims from the electric industry reserve was based on a report produced for the industry at the end of 2015 by Towers Watson, an actuarial consultancy. This gave Towers Watson's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of June 2015. This was the most recent report available when CISGIL calculated its year end 2018 reserves.

As outlined within the risk management section, there is significant uncertainty in the assessment of liabilities, and provisions are set to be adequate to cover the anticipated eventual cost, a management margin is added to the 'actuarial best estimate' so that no adverse run-off deviations are envisaged. Sensitivity analysis is performed to assist the selection of key parameters and, hence, the provisions adopted. Provisions are subject to detailed review regarding the appropriateness of key assumptions and the quantum of the provisions established.

The overall objective of CISGIL's reserving policy is to produce reliable and accurate reserves. Assumptions underlying the reserving calculations are agreed by the Quarterly Reserving Committee (QRC). Methodologies are peer reviewed throughout the calculation process. Provisions are approved and signed off by the Chief Actuary in consultation with the QRC, and any margin above the actuarial best estimate reserve is set by the Chief Financial Officer.

Periodic reports are produced by the actuarial team and presented to the Periodic Reserving Committee in order to advise management of the performance of the business. More detailed reports are produced on a quarterly basis providing information on the performance of the business against plan. These reports are presented to and form the basis of reporting the performance to the Board.

ii. Key assumptions

Principal assumptions underlying the claims provisions include:

• Allowance for future inflation rates being different to those implied in the claims data; and

• for bodily injury claims allowance has been made for:

i. use of the appropriate Ogden Tables;
ii. awards for general damages in accordance with the 14th edition of the Judicial College Guidelines;
iii. a proportion of large claims being settled by periodic payments; and
iv. improvements in the case estimation techniques resulting in earlier recognition of the size of claims.

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets (continued)

(b) General insurance contracts – assumptions, changes in assumptions and sensitivity (continued)

The gross insurance provision for claims and loss adjustment expenses arising in respect of prior years of £286.9m (2017: £309.5m) includes an release in reserves of £30.6m (2017: increase of £5.5m). This movement is as a result of the favourable development in Motor large bodily injury claims offset slightly by a strengthening of legacy employers' liability releases, reported as Fire and Accident (including Home) in the table below:

	Gross 2018	**Net 2018**	Gross 2017	Net 2017
Fire and Accident decrease/(increase) of reserves	**(2.3)**	**(3.9)**	(5.4)	(5.1)
Motor release of reserves	**35.2**	**26.0**	3.8	10.0
(Increase) in claims handling reserves	**(2.3)**	**(2.3)**	(3.9)	(3.9)
Movement in insurance liabilities	**30.6**	**19.8**	(5.5)	1.0

iii) Sensitivity analysis

There is greater uncertainty over motor claims provisions than other provisions as they often involve claims for bodily injury and associated legal costs which typically have a longer period to settlement. Motor provisions represent the most significant proportion of the total general insurance outstanding claims liabilities (gross of salvage and subrogation). Sensitivity information is given for motor claims provisions together with limited information for all other classes. The following table indicates the effect on gross claims provisions (gross of reinsurance and salvage and subrogation) of changes in key assumptions. The impact of the increased uncertainty on the income statement risk is mitigated through holding management margin on the best estimate reserves that is proportional to the level of uncertainty.

2018 Assumption	**Change in parameter**	**Effect on gross provision**	**% Effect**
Motor			
Average cost of claims for last three years - bodily injury and legal	**+10%**	**36.2**	**10.1%**
Mean term to settlement - bodily injury and legal	**+½ year**	**7.8**	**2.2%**
Rate of future inflation - bodily injury and legal	**+1%**	**11.1**	**3.1%**
Ogden discount rate - bodily injury	**-¾%**	**12.5**	**3.5%**
Other classes			
Mean term to settlement (liability)	**+½ year**	**0.3**	**1.9%**
Mean term to settlement (non-liability)	**+½ year**	**0.7**	**1.6%**
Rate of future inflation (liability)	**+1%**	**0.7**	**4.9%**
Rate of future inflation (non-liability)	**+1%**	**0.6**	**1.3%**

2017 Assumption	Change in parameter	Effect on gross provision	% Effect
Motor			
Average cost of claims for last three years - bodily injury and legal	+10%	34.9	9.0%
Mean term to settlement - bodily injury and legal	+½ year	8.4	2.2%
Rate of future inflation - bodily injury and legal	+1%	11.4	2.9%
Ogden discount rate - bodily injury	-¾%	12.7	3.3%
Other classes			
Mean term to settlement (liability)	+½ year	0.3	1.9%
Mean term to settlement (non-liability)	+½ year	0.6	1.6%
Rate of future inflation (liability)	+1%	0.7	4.6%
Rate of future inflation (non-liability)	+1%	0.5	1.4%

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets (continued)

(c) Change in general insurance liabilities and reinsurance assets

i) Change in insurance contract liabilities (net of salvage and subrogation)

	Gross	Salvage & Subrogation	Net
2018			
At the beginning of the financial year	**508.3**	**(33.3)**	**475.0**
Movement in the financial year	**(18.3)**	**(5.1)**	**(23.4)**
At the end of the financial year	**490.0**	**(38.4)**	**451.6**

	Gross	Salvage & subrogation	Net
2017			
At the beginning of the financial year	488.1	(23.3)	464.8
Movement in the financial year	20.2	(10.0)	10.2
At the end of the financial year	508.3	(33.3)	475.0

ii) Claims and loss adjustment expenses

	Gross 2018	Reinsurance 2018	Net 2018	Gross 2017	Reinsurance 2017	Net 2017
Claims reported	**412.5**	**(87.3)**	**325.2**	348.9	(28.7)	320.2
Claims incurred but not reported	**84.2**	**(20.1)**	**64.1**	127.9	(24.8)	103.1
Claims settlement expenses	**11.6**	**-**	**11.6**	11.3	-	11.3
	508.3	**(107.4)**	**400.9**	488.1	(53.5)	434.6
Quota Share	**-**	**48.9**	**48.9**	-	-	-
At the beginning of the financial year	**508.3**	**(58.5)**	**449.8**	488.1	(53.5)	434.6
Claims paid during the year	**(407.6)**	**84.4**	**(323.2)**	(370.9)	52.1	(318.8)
Increase/(decrease) in liabilities:						
Arising from current year claims	**419.9**	**(107.4)**	**312.5**	385.6	(99.5)	286.1
Arising from prior year claims	**(30.6)**	**10.8**	**(19.8)**	5.5	(6.5)	(1.0)
	(18.3)	**(12.2)**	**(30.5)**	20.2	(53.9)	(33.7)
Quota Share	**-**	**17.2**	**17.2**	-	48.9	48.9
Total movement	**(18.3)**	**5.0**	**(13.3)**	20.2	(5.0)	15.2
Claims reported	**403.3**	**(106.4)**	**296.9**	412.5	(87.3)	325.2
Claims incurred but not reported	**75.3**	**(13.2)**	**62.1**	84.2	(20.1)	64.1
Claims settlement expenses	**11.4**	**-**	**11.4**	11.6	-	11.6
	490.0	**(119.6)**	**370.4**	508.3	(107.4)	400.9
Quota Share	**-**	**66.1**	**66.1**	-	48.9	48.9
At the end of the financial year	**490.0**	**(53.5)**	**436.5**	508.3	(58.5)	449.8

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets (continued)

(c) Change in general insurance liabilities and reinsurance assets

iii) Provisions for unearned premiums

	Gross 2018	**Reinsurance 2018**	**Net 2018**	Gross 2017	Reinsurance 2017	Net 2017
At the beginning of the financial year	**241.6**	**-**	**241.6**	235.3	-	235.3
Increase in the financial year	**485.1**	**(159.7)**	**325.4**	496.1	(158.5)	337.6
Release in the financial year	**(483.0)**	**159.5**	**(323.5)**	(489.8)	158.5	(331.3)
Movement in the financial year	**2.1**	**(0.2)**	**1.9**	6.3	-	6.3
At the end of the financial year	**243.7**	**(0.2)**	**243.5**	241.6	**-**	241.6

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development

	Accident year										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	**Total**
Gross of reinsurance											
At end of the accident year:	325.9	411.3	497.0	502.1	368.1	284.7	285.5	353.6	367.8	**401.7**	**3,797.7**
One year later	333.1	455.4	530.2	473.3	346.9	269.0	268.1	371.7	358.0		**3,405.7**
Two years later	340.5	480.1	527.4	473.0	343.0	263.9	259.9	351.0			**3,038.8**
Three years later	328.7	465.5	518.0	467.9	335.4	260.7	259.2				**2,635.4**
Four years later	320.0	456.3	515.1	458.2	340.5	259.5					**2,349.6**
Five years later	320.4	464.3	508.1	452.2	336.2						**2,081.2**
Six years later	319.7	459.4	509.5	451.9							**1,740.5**
Seven years later	318.8	459.4	512.4								**1,290.6**
Eight years later	317.7	458.5									**776.2**
Nine years later	317.5										**317.5**
Estimate for cumulative claims	317.5	458.5	512.4	451.9	336.2	259.5	259.2	351.0	358.0	**401.7**	**3,705.9**
Cumulative payments to date	(312.8)	(449.8)	(505.4)	(447.2)	(324.5)	(250.9)	(240.7)	(287.0)	(277.6)	**(205.8)**	**(3,301.7)**
Gross outstanding claims liabilities	4.7	8.7	7.0	4.7	11.7	8.6	18.5	64.0	80.4	**195.9**	**404.2**
Provision for years prior to 2009											**74.4**
Gross outstanding claims liabilities											**478.6**
Gross claims reported											**403.3**
Gross claims incurred but not reported											**75.3**
Gross outstanding claims liabilities											**478.6**

Included in the analysis above is £49.7m (2017: £45.1m) of discounted reserves relating to PPOs. PPO reserves are discounted at 5.1%, reflecting the yield on the matching indexed-linked investments, adjusted for credit risk. Undiscounted reserves relating to PPOs are £133.4m (2017: £128.3m) on a total basis.

The above analysis excludes claim handling expenses.

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development (continued)

	Accident year										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	**Total**
Net of reinsurance											
At end of the accident year:	313.1	398.4	481.2	489.8	350.9	275.9	267.9	347.7	268.3	**294.4**	**3,487.6**
One year later	320.7	434.3	514.8	456.3	330.4	260.6	256.9	357.8	262.1		**3,193.9**
Two years later	325.4	458.6	516.5	458.7	329.7	255.1	247.7	339.3			**2,931.0**
Three years later	317.6	445.2	509.4	456.3	322.0	251.3	247.4				**2,549.2**
Four years later	310.0	439.4	506.9	448.1	325.8	252.0					**2,282.2**
Five years later	307.3	447.9	502.3	445.4	325.0						**2,027.9**
Six years later	310.2	447.2	503.3	445.3							**1,706.0**
Seven years later	310.3	447.6	506.1								**1,264.0**
Eight years later	309.0	446.9									**755.9**
Nine years later	308.7										**308.7**
Estimate for cumulative claims	308.7	446.9	506.1	445.3	325.0	252.0	247.4	339.3	262.1	**294.4**	**3,427.2**
Cumulative payments to date	(306.0)	(441.2)	(499.6)	(440.6)	(317.6)	(243.9)	(230.6)	(284.5)	(204.8)	**(150.2)**	**(3,119.0)**
Net outstanding claims liabilities	2.7	5.7	6.5	4.7	7.4	8.1	16.8	54.8	57.3	**144.2**	**308.2**
Provision for years prior to 2009											**50.8**
Net outstanding claims liabilities											**359.0**
Net claims reported											**296.9**
Net claims incurred but not reported											**62.1**
Net outstanding claims liabilities											**359.0**

Included in the analysis above is £24.3m (2017: £24.1m) of discounted reserves relating to PPOs.

It is to be expected that releases will normally be made to prior years claims as current reserves are set such that no adverse deterioration is expected. However, from time to time the random occurrence of significant large individual claims or events being worse than expected can give rise to a required strengthening, in addition to normal claims development being adverse. The 2018 result includes movement on prior year reserves of £(19.8)m (2017: £(1.0)m).

All amounts are stated in £m unless otherwise indicated

22. Taxation

	2018	2017
Current tax		
Asset/(liability) at the beginning of the financial year	**8.5**	14.3
Prior year adjustment	**0.1**	-
Tax credited to the income statement	**4.7**	3.2
Tax credited directly to other comprehensive income:		
Changes in fair value on available for sale assets recognised through other comprehensive income	**0.2**	0.4
Tax received during the financial year	**(5.0)**	(9.4)
Asset at the end of the financial year	**8.5**	8.5

	2018	2017
Deferred tax liability		
Liability at the beginning of the financial year	**(5.6)**	(7.0)
Tax credited to the income statement	**0.8**	0.7
Tax (charged) to statement of comprehensive income	**1.5**	0.7
Prior Year Adjustment	**(0.1)**	-
Liability at the end of the financial year	**(3.4)**	(5.6)
Analysis of deferred tax liability		
Claims equalisation reserve	**(2.6)**	(3.4)
Capital allowances on fixed assets	**0.3**	0.3
Available for sale assets	**(1.1)**	(2.5)
Liability at the end of the financial year	**(3.4)**	(5.6)

The Finance Act 2012 abolished the tax relief for the equalisation reserves of general insurers with effect from 1 January 2016. However the Act allows for the release of the reserve equally over a period of six years for tax purposes, with £4.8m being released in 2018. The balance as at 31 December 2018 was £14.3m which had previously been treated as tax deductible, however for accounts purposes the corresponding value is nil. The difference has been recognised as part of the Deferred Tax liability at 17.71%.

The Finance Act 2013 reduced the main rate of corporation tax from 21% to 20% from 1 April 2015, and the Finance Act 2015 subsequently further reduced the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. This will reduce the society's future current tax charge accordingly. The deferred tax liability at 31 December 2018 has been calculated based on an estimate of the rate at which the asset will reverse, using the tax rates substantively enacted at the statement of financial position date, to arrive at a blended rate of 17.71%.

23. Reinsurance liabilities

	2018	2017
Arising from reinsurance operations	**3.3**	3.8
	3.3	3.8

Premiums due to reinsurers including adjustment premiums due under catastrophe and motor excess of loss contracts, expected reinstatement premium under the catastrophe excess of loss contract and premiums payable under the IPA reinsurance contract.

All amounts are stated in £m unless otherwise indicated

24. Insurance and other payables

	2018	2017
Arising out of direct insurance operations	**0.9**	0.9
Accruals	**13.3**	17.4
Amounts payable to Group companies	**10.6**	13.1
Insurance premium taxation payable	**16.2**	15.7
Provisions	**0.8**	1.7
Other payables	**9.6**	6.1
	51.4	54.9

Comparatives have been re-presented to align with current year classification.

Reconciliation of movement of provisions.

	Marketing Campaigns	**Software Licence**	**Redress Provision**	**Regulatory Levies**	**Other**	**Total**
At 1 January 2018	**0.8**	**0.3**	**0.4**	**-**	**0.2**	**1.7**
Additional Provision	**3.1**	**-**	**1.7**	**10.6**	**0.8**	**16.2**
Utilisation of provision	**(3.0)**	**-**	**(1.9)**	**(10.4)**	**(0.7)**	**(16.0)**
Released to Income Statement	**(0.3)**	**(0.3)**	**-**	**(0.2)**	**(0.3)**	**(1.1)**
At 31 December 2018	**0.6**	**-**	**0.2**	**-**	**-**	**0.8**

	Marketing Campaigns	Software Licence	Redress Provision	Regulatory Levies	Other	Total
At 1 January 2017	2.7	0.3	-	0.7	0.1	3.8
Additional Provision	2.6	-	0.4	10.4	0.2	13.6
Utilisation of provision	(3.9)	-	-	(11.1)	-	(15.0)
Released to Income Statement	(0.6)	-	-	-	(0.1)	(0.7)
At 31 December 2017	0.8	0.3	0.4	-	0.2	1.7

25. Contingent assets and liabilities

CISGIL is party to a Deed of Guarantee with the Trustee for the benefit of the Co-operative Group Pension Scheme (Pace) that, if CFSMS does not pay any amount due in respect of its funding obligations to Pace, CISGIL will pay to Pace its share of the amount due as if it were the principal obligor for such share (for further details see group risk on page 57 and pension risk on page 56). As explained in note 8, CISGIL is currently recharged by CFSMS for its share of the pension contributions, including an element of the Pace deficit funding. The directors have no reason to believe that CFSMS will not be able to continue making payments to Pace when due and therefore, at the current time, do not expect any payments to be required under the guarantee.

26. Commitments

The following table provides analysis of the ongoing operating lease commitments for future minimum lease payments under non-cancellable operating leases by the period in which they fall due. If earlier break clauses exist in the lease contracts, it is assumed these will be exercised.

	2018	Restated 2017
Facilities associated with operating lease commitments		
Within one year	0.4	0.7
In the second to fifth years inclusive	-	0.4

27. Risk Management and Capital Management

i)Risk Management

CISGIL issues contracts that transfer insurance risk and is exposed to financial risk through its holdings of financial assets and liabilities. This section summarises these risks and the way CISGIL manages them.

Our approach to risk management

CISGIL operates a Risk Management Framework (RMF) that is designed to aid consistent management of risks at all levels in the business in accordance with a Three Lines of Defence (3LOD) model. The RMF has been in operation for several years and is understood by the business. This model ensures appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

The 'First Line of Defence' is the Risk Framework Owners (RFOs) from Executive and Business Management, who own the risks associated with the delivery of business plans. The respective risk personnel are responsible for supporting the RFOs with their accountability to the Board and assisting with management of risk in day to day operations. The RFOs are responsible for implementing and operating processes to identify, measure, manage, monitor and report risks that reside within their business areas on a day-to-day basis, ensuring that the business risk profile is understood and maintained within the Board's defined risk appetite.

The 'Second Line of Defence' is the Chief Risk Officer (CRO) and the Risk function, which is responsible for supporting the CRO with his accountability to the Board to provide oversight of current risk exposures of the business. The CRO owns the RMF, overseeing its implementation and challenging its operation by the first line of defence, to ensure first line risk responsibilities are executed effectively. The risk function consider the current and emerging risks across CISGIL, providing review and challenge to the risk and controls in place, overseeing the appropriate escalation of risks and providing aggregated risk reporting to Board.

The 'Third Line of Defence' is led by the Head of Internal Audit and independently challenges the overall management of the framework and provides assurance to the Board Audit Committee (BAC) and senior management on the adequacy of both the first and second line models. Internal Audit is responsible for providing independent, objective assurance that the RMF has been implemented as intended across the business and is embedded and functioning effectively.

Risk assessment of CISGIL

CISGIL has undertaken a robust assessment of the principal risks facing the business. An Own Risks and Solvency Assessment (ORSA) process has been developed, which is an integral component to the strategic planning process. The ORSA report includes a comprehensive picture of the risks that CISGIL is exposed to or could face in the future. These risks are summarised on page 5.

The CISGIL RMF requires the Executive Team to attest that they understand the risks and controls in their area of accountability and support an open risk management culture. In support of the attestation, each Executive and/or RFO is required to undertake a Risk and Control Self-Assessment (RCSA), which identifies the risks to the achievement of their objectives and the controls in place to mitigate these risks, together with an assessment of the effectiveness of the controls (Design and Performance with appropriate testing of control performance). The RCSA is designed to cover all material controls including financial, operational and compliance controls as well as the minimum requirements set out in CISGIL's risk policies and control standards.

Risk management structure

The Board is responsible for approving the CISGIL strategy, its principal markets and the level of acceptable risks articulated through its statement of risk appetite. The Board is also responsible for overall corporate governance, which includes ensuring that there is an adequate system of risk management in place.

CISGIL has developed and implemented a governance and organisation structure, which supports the Board with its responsibilities. The Board has established separate risk and audit committees to:

- Oversee and advise the Board of CISGIL on current and potential risks and the overall risk framework.
- Ensure that risk appetite is appropriate and adhered to and that key risks are identified and managed.
- Review the effectiveness of internal controls and risk management systems.

To assist the Board in carrying out its functions and to ensure that there are internal controls and risk management, the Board has delegated certain responsibilities to a set of Board committees and the Chief Executive Officer (CEO). The CEO has in turn, delegated elements of these responsibilities to appropriate members of the senior management team. To ensure independent oversight the CRO also has accountability to the Board Risk Committee (BRC).

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

All Board committees have Terms of Reference describing the authority delegated to them by the Board, and the Board ensures that each committee is provided with sufficient resources to enable its duties to be undertaken.

CISGIL Board Risk Committee (BRC)
The purpose of the Committee is to oversee and advise the Board on current and potential risks and the overall risk framework. The Committee also oversees CISGIL's risk management arrangements, ensuring that Risk Appetite is appropriate and adhered to and that key risks are identified and managed. Responsibilities include:

- Providing oversight and advice to the Board on current and potential risks and the overall risk framework including risk appetite, risk tolerance and risk management strategies.
- Reviewing and challenging the design of the Risk Management Framework, Risk Appetite limits and tolerances and recommending to the Board for approval.
- Reviewing `and challenging internal controls and processes of risk management including the coverage of the risk taxonomy.

CISGIL Board Audit Committee (BAC)
The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of CISGIL's financial statements, to review the effectiveness of internal controls and risk management systems and to monitor the effectiveness and objectivity of internal and external auditors. Responsibilities include:

- Review and oversight of financial statements and annual reports before submission to the Board.
- Exercising oversight of identified risk control framework failings and weaknesses as well as management actions taken to resolve them.
- Oversight of internal and external assurance and audit.

CISGIL Remuneration Committee (RemCo)
The purpose of the Committee is to determine and oversee the Remuneration Policy for CISGIL in respect of its Executive and Key Function Holders. Reward and remuneration arrangements for other colleagues are maintained by the Co-op Group, with appropriate input from the Committee. Responsibilities include:

- Determining the remuneration policy for the CISGIL executive, in conjunction with the Co-op Group Remuneration Committee, ensuring that this is in line with Group Remuneration policy and complies with relevant regulatory guidance.
- Having responsibility for setting the remuneration for each of the CISGIL Executives.
- Determining the fees payable to the CISGIL Chair.

CISGIL Nomination Committee (NomCo)
The purpose of the Committee is to review and make recommendations on the Board composition, succession planning for Executive Directors, Non-Executive Directors and members of the Executive, to identify and nominate candidates for Board vacancies and evaluate candidates for the Board. Responsibilities include:

- Identifying and nominating candidates to fill Board vacancies as and when they arise.
- Review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes.
- Give full consideration to succession planning for Directors and other members of the Executive.

CISGIL has produced a Responsibilities Map which sets out the accountabilities delegated by the CEO to each member of the Executive Team, which are also reflected within their individual job descriptions. These accountabilities include the Senior Managers & Certification Regime (SMCR) senior management function and prescribed responsibilities which are considered in conjunction with delegated authorities. In addition to Board level committees, there are a number of Executive Management Committees:

CISGIL Executive Committee (ExCo)
The purpose of ExCo is to monitor performance of the business, oversee its customer and business strategic direction, and ensure both timely issue resolution and decision making for matters and decisions referred to it from sub-committees. Responsibilities include:

- Ensuring the implementation of the risk strategy set by the Board so as to deliver an effective risk management environment for CISGIL.
- Ensuring that all key strategic elements are governed fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to decision making, internal control and management.
- Management of mitigating actions relating to any risks to the strategic direction, plans and business model of CISGIL.

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

CISGIL Executive Risk Committee (ERC)

The ERC ensures that all key strategic elements of CISGIL are governed, fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to decision making, internal control and management. Responsibilities include:

- Driving the detailed implementation of the CISGIL RMF approved by the Board.
- Providing a mechanism for ensuring that the CISGIL-wide risk and capital management requirements, developments, and processes are in place.
- Reviewing, challenging and recommending for approval the Risk Vision & Strategy, RMF, and risk appetite Statement.
- Reviewing, challenging and recommending for approval risk appetite limits and tolerances.
- Reviewing approaches to stress testing, risk management reporting and governance, and referring them to the BRC for approval.
- Reviewing the effectiveness of Governance and the RMF, including providing challenge and assurance that all risk and control actions are being managed.
- Monitoring the business's risk profile against the agreed limits and tolerances and reporting on these to the BRC.

Senior Management Committees

CISGIL has other committees that advise and support the CEO and members of the senior management team in carrying out their responsibilities, and provide detailed oversight and monitoring in the following areas:

- Customer.
- Commercial.
- Business Change Advisory Board.
- Portfolio Steering Group.
- Capital, Liquidity, Investment and Pension.
- Reserving.
- Data Governance.
- Model Governance.

All amounts are stated in £m unless otherwise indicated

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Level 1 Risks

Risks are classified into Level 1 and Level 2 categories. Business activity can be exposed to one or a combination of the following risk types. The Level 1 risks are the highest category of inherent financial and non-financial risks to which CISGIL is exposed:

Risk Type	Definition	Page
Strategic and business risk	The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital	49
Reputational risk	The risk associated with an issue which could in some way be damaging to the brand of the organisation among all or any stakeholders	49
Conduct risk	The risk that CISGIL's processes, behaviours, offerings or interactions will result in unfair outcomes for customers	49
Regulatory risk	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation CISGIL may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities	49
Insurance (Premium) risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure	50
Insurance (Reserving) risk	The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements	50
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities	51-52
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	52-53
Liquidity risk	The current and prospective risk to earnings or solvency arising from CISGIL's inability to meet its obligations when they come due without incurring unacceptable losses	53-54
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	54-55
Pension risk	The risk to CISGIL capital and profitability from Co-operative Financial Services Management Services' (CFSMS's) exposure to the Group Pension Scheme (Pace) due to employees seconded from CFSMS to CISGIL	56
Group risk	The risks that arise through being part of The Co-operative Group	57

For each of the risks, CISGIL appoints a Risk Framework Owner (RFO). The RFO is required to define and document a risk framework, which comprises a Risk Policy, associated Control Standard(s) and risk appetite and to certify to the effectiveness of the control framework used to manage the risk on a semi-annual basis.

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Strategic and Business risk

Strategic and Business risk is defined as the risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital. Strategic risks cover those risks over the longer term time horizon around the strategic plan. They align to the strategic risk profile. Business risks are in year performance against plan, and align to the material risk profile.

CISGIL's financial objective in managing these risks is to generate a sufficient, stable and sustainable return on equity and to hold a sufficient capital buffer in excess of minimum regulatory capital requirements to cover projected risks and maintain market confidence. The Board have defined detailed risk appetite measures and limits underpinning these objectives, which are measured, monitored and reported regularly to the ERC, BRC and Board.

Reputational risk

Reputational risk is defined as the risk associated with an issue which could in some way be damaging to the brand of Co-op Insurance among all or any stakeholders either through its strategic decisions, business performance, an operational failure or external perception CISGIL's objective is to maintain a strong reputation in line with its values and principles through robust operational standards, continual monitoring of corporate reputation and brand.

As part of the assessment and control of this risk, business performance and risk profile across all risk types are closely monitored and reviewed. CISGIL proactively monitors and manages media, public and customer opinion and works closely with external rating agencies to ensure fair and balanced representation. This approach helps maintain member, customer and market confidence and the risk is regularly monitored and reported to the ERC, BRC and Board.

Throughout the year reputational risk remained stable.

Conduct risk

Conduct risk is the risk that CISGIL's processes, behaviours, offerings or interactions will result in unfair outcomes for customers. Accordingly, conduct risk may arise from any aspect of the way a business is conducted, the sole test being whether the outcome is an unfair one for customers. Conduct risk is a key area of focus across the financial services industry, with increasing scrutiny from the FCA.

CISGIL's objective is to conduct business in a way that results in consistent fair outcomes for its customers through the operation of a robust conduct risk strategy and framework and the application of systems and controls in conjunction with on-going oversight and monitoring from risk functions. These established systems and controls are designed to detect, mitigate, remediate and prevent emerging conduct risk and are enhanced by a culture where the effective identification and reporting of risk by colleagues is encouraged and supported by a strong audit oversight.

During 2018, CISGIL strengthened its approach to vulnerable customers, embedding practices into the framework, which ensure vulnerability is recognised and recorded, and that effective MI and oversight is in place. This is further supported by the ongoing development of a customer focused culture to ensure fair outcomes for all.

Conduct Risk remains a high level of focus and activity across the industry and CISGIL is undertaking further work in relation to its pricing strategy for both new products and renewals.

While Conduct Risk is managed within the business, the industry is subject to the Competition & Markets Authority (CMA) review of the Consumer Associations super complaint and the FCA's reviews of General Insurance renewal pricing.

Regulatory risk

Regulatory risk is the risk of regulatory sanctions, regulatory censure, material financial loss or loss to reputation CISGIL may suffer as a result of its failure to comply with regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities. CISGIL's objective is to be compliant with all relevant regulatory requirements and manage its regulatory risks so as to minimise the probability and potential impact of breaches and to remedy promptly and comprehensively the consequences of any that do occur.

The continued reliance on the legacy infrastructure has restricted the ability to respond precisely to some aspects of prescriptive regulation which have been mitigated by manual workarounds and open communication with customers. Where no further corrective action can be taken, a process of risk acceptance has been put in place.

In the first half of the year, CISGIL implemented the General Data Protection Regulation (GDPR) requirements on time and in the latter part of the year successfully implemented the Insurance Distribution Directive (IDD). In addition, adjustments were made to ensure that the requirements of the Senior Managers and Certification Regime (SMCR) were met and during the year, CISGIL moved from a fixed portfolio firm to a flexible portfolio firm. In 2019, the FCA have guidance and reviews planned around themes that are core to CISGIL's business model, in particular vulnerable customers and renewal pricing, so regulatory risk will continue to remain at the forefront.

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Insurance risk

Insurance risk comprises the risk of loss resulting from:

- Future claims events other than catastrophes (Premium Risk).
- Adverse change in the value of insurance liabilities (Reserve Risk).
- Natural or man-made catastrophe events (Catastrophe Risk).
- The assumptions underlying expenses are not borne out in practice (Expense Risk).

CISGIL underwrites UK private Motor and Home business, either written directly or through brokers, all of which cover a 12 month duration. Historically, other classes of business were underwritten which are now in run off and mainly comprise employers liability and commercial motor business.

Key risks under Motor policies are bodily injury to third parties, accidental damage to property and theft of or from policyholders' vehicles. The most significant factors affecting the frequency and severity of motor claims are judicial, legislative and inflationary changes and the frequency and severity of large bodily injury claims. Periodic Payment Orders (PPOs) are being used to settle injury claims in the UK, with compensation being paid to claimants at regular intervals, rather than in a single lump sum award. This introduces further risk to the insurer as the term of the payments is dependent upon length of life expectancy and the payments increase with care worker future inflation. Uncertainty in the discount rate used to calculate these claims also increases the risk to insurers.

Key risks under Home policies are damage from storm and flood, fire, escape of water, subsidence, theft of or accidental damage to contents and liability risks.

At the statement of financial position date there were no significant concentrations of insurance risk.

Insurance Risk - Objective and strategy

CISGIL manages insurance risk by:

- Ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with underwriting strategy and priced to reflect the underlying risk;
- Minimising reserve risk volatility through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches; and
- Mitigating risk through the use of appropriate reinsurance arrangements.

These are considered in turn below.

The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and only those risks which conform with underwriting criteria are accepted. Exposure mix and the frequency and average costs of claims are monitored throughout the year and where significant deviations from expectation are identified remedial action is taken.

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation and fraud databases, and the use of claims specialists. The basis for assessing claims provisions is set out in note 21 (page 37).

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. CISGIL takes all reasonable steps to ensure that it has information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. CISGIL manages this risk through the Reserving Committee which supports the Chief Financial Officer (CFO) in their responsibility to formally review claims reserves on a quarterly basis.

CISGIL uses reinsurance to manage insurance risk, and in particular to mitigate the cost of catastrophe events such as storms and floods and the cost of large claims arising within its motor account. The appropriate level of reinsurance is proposed by management and approved by the Board, using CISGIL's Internal Model to inform decision making.

In 2018, CISGIL had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and a quota share arrangement of both its Motor and Home business.

The quota share reinsurance arrangement, commenced at the beginning of 2017 and which will remain in place for 2019, enhances the Standard Formula capital coverage by reducing exposure to both premium and catastrophe risk in respect of business that is earned through 2018 and 2019.

Insurance risk sensitivity analysis can be found in note 21 b iii on page 38.

All amounts are stated in £m unless otherwise indicated

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Market risk

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers such as interest rates and market prices of assets and liabilities.

CISGIL invests in high-quality fixed and variable interest bonds issued by corporations ("corporate bonds") and the UK government ("gilts"), and in short-term sterling deposits with financial institutions (reverse repo transactions). The value of, or income from, assets held is subject to volatility from changes in both market interest rates and additional spreads related to the specific credit-worthiness of the issuer ("credit-spreads"). Proceeds from maturing investments are also subject to risk over the future return on reinvestment.

CISGIL is also exposed to market interest rates through the discounted present value placed upon future claims. All future claims are discounted for assessing solvency on both an economic and regulatory basis. However, IFRS short term insurance reserves (normally less than five years) are not directly affected by market interest rates as they are undiscounted.

CISGIL writes contracts of insurance in the United Kingdom and insurance liabilities and borrowings are denominated in sterling. Funds are invested solely in assets denominated in sterling and consequently there is no direct exposure to currency risk.

While CISGIL is not a participating employer, it has an agreement to pay pension contributions relating to staff employed by CFS Management Services Limited (CFSMS) that are assigned to work for CISGIL. Through this CISGIL is indirectly exposed to market risks (including interest rate, credit spread, equity and property), of the Co-operative Group pension scheme (Pace).

In summary, the key market risks that CISGIL is exposed to are:

- Fluctuations in interest rates, allowing for the impact on both asset and liability values, and investment income.
- Movements in credit-spreads which impact the market value of corporate bonds.
- Changes in the relationship between interest rates which have similar but not identical characteristics.

Market Risk - Objective and strategy

CISGIL's objective is to achieve acceptable returns through the use of highly rated UK government and corporate bonds while managing volatility by minimising exposure to equities and other volatile instruments. To enhance certainty over the investment return generated from these assets, management practice is generally to maintain holdings to maturity.

CISGIL's investments are managed by Royal London Asset Management with whom CISGIL have an agreed investment mandate with limits for exposure by asset type, credit-rating, maximum terms and maximum exposure to individual counterparties.

CISGIL manages credit-spread and default risks from corporate bonds through the limits for exposure to credit-ratings and individual counterparties. Other risk mitigation techniques employed to manage exposure to counterparty default include transacting only through a diversified range of authorised counterparties and ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis. The Capital, Liquidity, Investment and Pension Committee (CLIP) support the Chief Financial Officer (CFO) in overseeing the monitoring and management of these risks and exposures against limits.

The investment mandate sets strategic asset allocation and limits of investments types and duration and is approved by the Board. This is determined through considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall business, which relies on outputs from CISGIL's Internal Model. Throughout 2018 the mandate has maintained the very risk averse stance that was set in 2016.

Interest-rate risk is managed through investing in fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts. CISGIL matches the average duration of assets and liabilities in this portfolio by estimating their mean duration. The mean duration of financial assets is measured against the investment mandate and remained within these boundaries during the period. The mean duration of insurance liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the statement of financial position date).

For the year ended 31 December 2018	**2018 (Years)**	2017 (Years)
Insurance liabilities	**2.6**	**2.7**
Financial assets	**3.1**	**3.3**

Index-linked investments and other specific debt securities are used to match periodic payment orders (PPOs) and provisions relating to exposure within the historic liability claims from the electric industry by amount and duration. In order to do this, an expert opinion on life expectancy is used along with an expectation of long term average earnings.

All amounts are stated in £m unless otherwise indicated

27. Risk Management and Capital Management (continued)
i) Risk Management (continued)

Market Risk - Objective and strategy (continued)

Mean durations for these exposures are:

2018

Periodical payments	Amount	Duration Years
Insurance liabilities	**24.3**	**17.6**
Financial assets	**43.7**	**15.1**

EIROS claims	Amount	Duration Years
Insurance liabilities	**2.6**	**9.5**
Financial assets	**2.5**	**7.9**

2017

Periodical payments	Amount	Duration Years
Insurance liabilities	24.1	17.7
Financial assets	44.1	15.9

EIROS claims	Amount	Duration Years
Insurance liabilities	2.7	9.7
Financial assets	2.6	8.6

Insurance liabilities are shown net of reinsurance. The liabilities are assessed against assets on a net basis, as this represents CISGIL's residual risk. Gross liabilities in respect of periodic payment settlements are £49.7m (2017: £45.1m) and EIROS claims amount to £2.6m (2017: £2.7m).

Market Risk - Sensitivity analysis
Based on the Internal Model, the most significant aspect of market risk to which CISGIL is exposed is the effect of changes in credit-spreads on corporate bonds. The resulting movements in the market values of corporate bonds directly affect CISGIL's solvency. As CISGIL has adopted a policy of recognising most investment assets on an 'available for sale' basis, movements in market values of these assets are recognised in other comprehensive income and so have no impact on reported IFRS profits.

An increase of 100 basis points in credit-spreads would approximately reduce the value of CISGIL's assets at the end of the financial year by £21.2m (2017: £22.2m). This would reduce CISGIL's solvency (on all bases) by £17.4m net of tax (2017: £18.3m), although it is likely that the overall net impact on solvency would be lower than this as the fall would be partially offset by a reduction in the value of liabilities arising from the use of the Volatility Adjustment (under Solvency II) to value claims provisions. The impact of a decrease of 100 basis points in credit-spreads would have similar but opposite effects. Comparative analysis has been restated to align with 2017 methodology.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. CISGIL's objective is to minimise operational risk through the implementation of a robust control environment which minimises the potential for loss as a result of the failure of processes, people and technology or due to external events.

CISGIL has defined the following sub-categories within operational risk, which represent the major areas of operational risk exposure. Each sub-category has its own policy, approved by the relevant RFO and is supported by underlying control standards:
- Financial Reporting Risk.
- Model Risk.
- Technology Risk (including Cyber Risk).
- Premises and Physical Security Risk.
- Third Party Supplier Risk.
- Change Risk.
- Product Governance Risk.
- Information Risk.
- Financial Crime Risk.
- People Risk.
- Legal Risk.
- Business Disruption Risk.
- Health & Safety Risk.

All amounts are stated in £m unless otherwise indicated

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Operational risk (continued)

Operational risks are identified, measured, managed and mitigated through on-going risk management practices including risk assessments, formal control procedures and contingency planning. Operational risks and key controls are regularly reviewed by individual Executive Leadership Team meetings and various risk forums. Significant operational risks are reported to the ERC, BRC and Board.

Technology Risk: During 2018 CISGIL has undertaken a number of initiatives in respect of current IT operating model remediation and including further separation from the estate shared with third parties. As various separation phases were concluded, the overall risk reduced and projects are in place to complete the physical separation by the end of 2019. There was also improved understanding of risks around unsupported assets, with improved contingency plans in place.

Information Risk: Several data deletion projects took place throughout the year, removing significant numbers of sensitive items of data. In addition, stricter controls in the operation of data were introduced, particularly on contractual controls on third parties processing CISGIL data. This reduced the impact of data loss to the business. Further data cleansing and improved data controls during 2019, is expected to further reduce this risk.

People Risk: CISGIL encourages an inclusive culture, where colleagues feel engaged and supported, such that business and customer needs are met. There are multiple dependencies on key colleagues across the business, who are responsible for supporting strategic projects as well as managing business as usual activities. This risk is managed individually with detailed succession planning, retention strategies and continued investment in leadership capability.

CISGIL has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach which includes; property and business interruption, financial crime, employer's liability and Directors and Officers. CISGIL also renewed its Cyber Insurance (Forensic & Investigation costs, Business Interruption, Cyber Theft, Cyber Extortion, Telephone Hacking, PR expenses and Notification expenses).

Liquidity risk

Liquidity risk is the current and prospective risk to earnings or solvency arising from the CISGIL's inability to meet its obligations when they come due without incurring unacceptable losses. CISGIL's objective is to maintain at all times, liquid resources which are adequate to meet all policyholder and other funding obligations as they fall due primarily through the use of cash and highly liquid UK government and corporate bonds.

The Board's risk appetite is that liquid assets should be at least equal to 20% of the ultimate cost of a 1-in-100 year UK windstorm loss before reinsurance recoveries. The ultimate cost is calculated based upon the catastrophe component of CISGIL's Internal Model.

The latest model assesses the approximate ultimate cost of a 1-in-100 year UK windstorm loss as £125.5m (2017: £113.8m), giving a minimum requirement for £25.1m (2017: £22.8m) of liquid assets against actual liquid assets of £684.8m (2017: £738.6m). These values are gross of all reinsurance.

Liquid assets are considered to be:

Asset type		**Value included as liquid assets**
Gilts		100%
Cash		100%
Corporate bonds:	AAA	85%
	AA	85%
	A	50%
	BBB	50%
All other investments		0%

The actual and projected levels of cash and other assets held are monitored and managed through the Capital, Liquidity, Investment and Pension Committee, with oversight by the BRC and Board. In addition, in between CLIP meetings, monthly monitoring of liquid assets against risk appetite limits is undertaken.

All amounts are stated in £m unless otherwise indicated

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Liquidity risk (continued)

The following table indicates the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity).

	Carrying value	Gross nominal out flow	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2018								
Insurance contract liabilities	**490.0**	**574.2**	**207.5**	**96.6**	**60.4**	**35.9**	**21.5**	**152.3**
Financial liabilities at amortised cost:								
Subordinated debt	**68.1**	**124.6**	**8.4**	**8.4**	**8.4**	**8.4**	**8.4**	**82.6**
Reinsurance liabilities	**3.3**	**3.3**	**3.3**	**-**	**-**	**-**	**-**	**-**
Insurance and other payable	**51.4**	**51.4**	**51.4**	**-**	**-**	**-**	**-**	**-**
Overdrafts	**8.1**	**8.1**	**8.1**	**-**	**-**	**-**	**-**	**-**
	620.9	**761.6**	**278.7**	**105.0**	**68.8**	**44.3**	**29.9**	**234.9**
Other liabilities	**3.4**							
Total recognised liabilities	**624.3**							

	Carrying value	Gross nominal out flow	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2017								
Insurance contract liabilities	508.3	592.2	208.3	109.0	62.9	38.0	22.9	151.1
Financial liabilities at amortised cost:								
Subordinated debt	67.9	133.0	8.4	8.4	8.4	8.4	8.4	91.0
Reinsurance liabilities	3.8	3.8	3.8	-	-	-	-	-
Insurance and other payable	54.9	54.9	54.9	-	-	-	-	-
Overdrafts	5.9	5.9	5.9	-	-	-	-	-
	640.8	789.8	281.3	117.4	71.3	46.4	31.3	242.1
Other liabilities	5.6							
Total recognised liabilities	646.4							

Credit risk

Credit risk is the risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations. CISGIL does not aim to earn a return from credit risk hence its appetite for credit risk is very low. Potential losses arising from credit risk are minimised by the use of high quality reinsurers and highly rated investments.

CISGIL's key credit risk exposure is from the default or delay in respect of insurance receivables. This could arise from the following:

- Reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries;
- Default or delay of repayment of loans and receivables; and
- Insurance counterparties failing to meet financial obligations.

CISGIL manages credit risks associated with cash and corporate bonds as part of market risk. See market risk section on page 51 to 52 for details.

Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. CISGIL places limits over exposure to a single reinsurance counterparty, or counterparty group, based upon their credit-worthiness. These limits apply when reinsurance is initially placed, usually annually, and then regularly monitored by the Capital, Liquidity, Investment and Pension Committee. Where concern exists over the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action.

The quota share reinsurance arrangement operates on a funds withheld basis, which means that only the reinsurer margin is transferred to the reinsurer.

All amounts are stated in £m unless otherwise indicated

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Credit risk (continued)

Insurance receivable and other assets are primarily premium debtors due from customers and insurance intermediaries. Exposure to insurance intermediaries is managed in line with CISGIL Credit risk policy.

CISGIL has a credit exposure of up to £60.0m (2017: £60.0m) with a trading counterparty that provides administrative services including the collection of premiums. Credit Insurance is purchased to bring this exposure to within risk appetite.

As at the statement of financial position date, the table below provides analysis of the credit rating of those assets subject to credit risk. CISGIL policy for making provisions for possible impairment is described within the accounting policy section on page 21.

	AAA	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
As at 31 December 2018						
Financial assets at fair value through income or expense:						
Cash deposits and reverse repo arrangements with ap	**-**	**-**	**156.0**	**-**	**-**	**156.0**
Available for sale assets:						
Listed debt (fixed rate)	**67.3**	**316.2**	**144.9**	**-**	**-**	**528.4**
Listed debt (variable rate)	**50.6**	**23.3**	**62.4**	**4.8**	**-**	**141.1**
Reinsurance assets	**-**	**30.0**	**21.9**	**-**	**1.8**	**53.7**
Insurance receivables and other assets	**0.8**	**2.5**	**2.9**	**-**	**162.0**	**168.2**
Cash and cash equivalents	**-**	**-**	**5.1**	**-**	**-**	**5.1**
	118.7	**372.0**	**393.2**	**4.8**	**163.8**	**1,052.5**
Salvage and subrogation						**38.4**
Assets not subject to credit risk						**38.4**
						1,129.3

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2017						
Financial assets at fair value through income or expense:						
Cash deposits and reverse repo arrangements with ap	-	-	197.2	-	-	197.2
Available for sale assets:						
Listed debt (fixed rate)	108.7	291.5	143.4	-	-	543.6
Listed debt (variable rate)	27.9	24.8	63.3	5.0	-	121.0
Reinsurance assets	-	29.8	25.6	-	3.1	58.5
Insurance receivables and other assets	1.8	2.5	3.5	-	163.4	171.2
Cash and cash equivalents	-	-	15.2	-	-	15.2
	138.4	348.6	448.2	5.0	166.5	1,106.7
Salvage and subrogation						33.3
Assets not subject to credit risk						40.8
						1,180.8

The maximum exposure to credit risk, before making allowance for collateral held, is represented by the carrying value of each financial asset in the table. Collateral, in the form of gilts, of £156.0m (2017: £147.8) is held against short term deposits which have been placed into a reverse repo transaction of £156.0m as at 31 December 2018 (2017: £145.0m). On 31 December 2018, an additional £5.8m was placed on deposit, this balance was 100% covered by collateral received in the form of gilts. These short term deposits sit with approved credit institutions within financial investments at fair value through income or expense on the statement of financial position.

All amounts are stated in £m unless otherwise indicated

27. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Eurozone risk

CISGIL has no direct exposure to the sovereign debt of European countries and exposure to European countries arising from corporate bonds as shown in the following table. All bonds are denominated in sterling and therefore not subject to exchange rate volatility due to uncertainty around Brexit. CISGIL has no exposures to European countries as a result of repo arrangements.

The following table shows exposure to European countries arising from corporate bonds.

	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2018				
Finland	**24.1**	**6.2**	**-**	**30.3**
France	**-**	**14.4**	**-**	**14.4**
Germany	**27.2**	**6.1**	**-**	**33.3**
Netherlands	**-**	**10.2**	**-**	**10.2**
Norway	**-**	**8.4**	**-**	**8.4**
Sweden	**5.7**	**18.0**	**-**	**23.7**
Switzerland	**-**	**6.1**	**-**	**6.1**
	57.0	**69.4**	**-**	**126.4**

	Up to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2017				
Finland	-	6.4	-	6.4
France	-	5.0	-	5.0
Germany	-	31.5	5.3	36.8
Netherlands	18.1	7.4	-	25.5
Norway	-	11.5	-	11.5
Sweden	-	35.8	-	35.8
Switzerland	5.3	-	-	5.3
	23.4	97.6	5.3	126.3

Pension risk

Pension risk is defined as the risk to CISGIL capital and profitability from CFSMS's exposure to the Pace scheme, due to employees seconded from CFSMS to CISGIL.

The Pace scheme is the Co-operative Group pension scheme. It is a defined contribution scheme and while CISGIL is not a participating employer, it has an agreement to pay pension contributions relating to staff currently and previously employed by CFSMS, a wholly owned subsidiary of the Co-operative Group, who have been assigned to work for CISGIL. As the scheme is closed to future accruals the costs arise through deficit repair contributions, expenses and potential employer debt, under Section 75 of the Pensions Act.

Pension risk in CISGIL is currently considered to be low. CISGIL contributed nil in 2018 (2017: £1.9m). The conclusion of the 2016 Pace valuation was that the scheme was over 100% funded on a trustee technical provisions basis. Pace already runs very little investment risk and material volatility in the funding position is not anticipated. In addition, Pace is aiming to become self-sufficient and to transfer liabilities to an insurance company subject to favourable pricing terms. It is expected to be able to rely on returns from its asset portfolio to reach the target before 2027. As a result of the above, no further deficit contributions will be due in the foreseeable future.

The Pace trustee, in consultation with the Group, is responsible for the risk management arrangements for Pace, agreeing suitable contribution rates, investment strategy and for taking professional advice as appropriate. CISGIL engages with the Group to actively manage the volatility in the pension funding position. The impact of pension risk is assessed under CISGIL's Risk Management Framework and Internal Model and capital requirements also allow for this.

In 2017 the Group disposed of its remaining financial shareholding in the Co-operative Bank. Following this, in August 2018, the Pace scheme was sectionalised to separate the Co-operative Bank liabilities from the rest of the scheme, however, this has not had any impact on the risk faced by CISGIL.

27. Risk Management and Capital Management (continued)
i) Risk Management (continued)

Group risk
Group risk is defined as the risks that arise through being part of the Co-operative Group. Group risk includes elements of Reputational, Operational and Pension risks as per the previous sections. CISGIL currently receives operational resources and certain services from Co-operative Group and CFSMS, a wholly owned subsidiary of the Co-operative Group. CISGIL is therefore subject to third party supplier risk of managing CFSMS and Co-operative Group as intergroup suppliers. CISGIL ensures clear identification of Group risks and actively engages with the Co-operative Group to ensure that Group risks are appropriately managed in a robust control environment.

27. Risk Management and Capital Management (continued)

ii) Capital Management

Objectives when managing capital

CISGIL's strategy in respect of capital management is to ensure that the following objectives are met:

- It has sufficient capital to meet all regulatory requirements.
- It has sufficient additional capital above the regulatory requirements ('SCR coverage') to make any breach of the regulatory requirement unlikely, ensuring that policyholders are protected and also that the Board's risk appetite is met.
- Subject to the above objectives being met, it makes the required return on equity.

Required capital

Under the Solvency II regulatory framework, the Prudential Regulation Authority (PRA) requires CISGIL to calculate a capital requirement and to hold sufficient capital to meet it.

(a) Regulatory required capital

The Solvency II regulatory regime came into force as at 1 January 2016. Under this solvency framework, CISGIL is required to hold capital at the greater of two measures, namely the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). These measures are described below.

i) SCR: The SCR is a risk-responsive capital measure, calibrated to ensure that an insurer will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. CISGIL currently calculates its SCR using the Standard Formula (SF), adjusted to ensure that this appropriately reflects its risk profile. The Standard Formula is calibrated based on market wide data and not on a specific firm's data, so the PRA must approve the SF SCR as being appropriate for a particular firm.

CISGIL also maintains an Internal Model to calculate economic capital requirements and an internal view of regulatory solvency and risk. It is maintained targeting the required standards to apply to the PRA for approval to use CISGIL's Internal Model to calculate the SCR. Outputs from the Internal Model and from the SF SCR calculation are used in areas of the wider business such as investment and reinsurance decisions, determining the risk in the business plans with regard to risk appetite and return on capital in pricing.

ii) MCR: The calculation of the MCR is prescribed under the Solvency II guidance and is set at a lower level than the SCR. Initially, the MCR is calculated by applying set factors to net technical provisions and the previous 12 months' net written premiums and is then subject to a cap of 45% and a floor of 25% of the SCR.

(b) Internal required capital

CISGIL Board sets capital risk appetite, which defines how much additional capital (SCR coverage) CISGIL should hold over and above its most onerous regulatory capital requirement. The risk appetite at end-2018 is for the SCR coverage to be at least 130% over a forecast horizon of 24 months, and to target 140% SCR coverage over the same period. The risk appetite is reviewed periodically and was most recently approved in February 2019.

CISGIL has maintained capital above all its regulatory requirements throughout 2018. Board risk appetite is for SCR coverage to be at least 130% over a forecast horizon of 24 months. This was the case throughout 2018. CISGIL reviews solvency continuously through weekly, or when appropriate daily, monitoring. Monthly updates and quarterly reports are provided to the Capital, Liquidity, Investments and Pensions Committee and Board.

In the event that CISGIL falls below its risk appetite, it would be possible to reduce capital requirements by executing actions that reduce risk, albeit often resulting in reduced returns. Management have identified potential actions which fall into three main categories:

- Actions to reduce insurance risk through the purchase of reinsurance.
- Actions to reduce other types of risk – for example, de-risking the investment portfolio.
- Actions to increase available capital – for example, through possible issuance of additional subordinated debt.

Potential actions are routinely assessed at least once a year so that contingent management actions are available.

Under the Solvency II regime, whilst the SF SCR determines the regulatory required capital, CISGIL also calculates its own view of risk called the Economic Capital Requirement (ECR), also known as the Ultimate SCR (USCR). This is calculated in the Internal Model on an economic basis. This view of risk considers, amongst other things, the full run off of risks, rather than just the risks over the next 12 months.

(c) Capital composition

The policies and processes employed by CISGIL are designed to benefit policyholder protection by giving the business an accurate understanding of the amount and quality of capital and resources. This helps the business ensure that sufficient capital is held to absorb unexpected losses and maintain solvency.

Under the Solvency II regime capital resources are referred to as own funds. Own funds correspond to capital and reserves which can serve as a buffer against risks and absorb financial losses. Each type of own funds is classified within a tier, with tier 1 being the highest quality capital.

27. Risk Management and Capital Management (continued)

ii) Capital Management (continued)

(c) Capital composition (continued)

All of CISGIL's excess of assets over liabilities, which comprise share capital and retained profits calculated on a Solvency II basis, is classified as tier 1 capital. In addition, the subordinated debt held by the business serves as tier 2 capital and deferred tax assets are classified as tier 3 capital.

100% of own funds held at the end of the reporting period were eligible to meet the SCR, whilst in line with Solvency II regulations, 100% of tier 1 capital, 20% of tier 2 capital and 0% of tier 3 capital are eligible to meet the MCR.

CISGIL holds no ancillary own-funds, which are potential loss-absorbing items such as unpaid share capital or letters of credit, and would require prior supervisory approval to be recognised under Solvency II.

Further information, including an explanation of the valuation of assets and liabilities on a Solvency II basis, is included in the CISGIL Solvency & Financial Condition Report published annually.

All amounts are stated in £m unless otherwise indicated

28. Parent company

CIS General Insurance Limited is incorporated as a Registered society under the Co-operative and Community Benefit Societies Act 2014 and is registered in England and Wales.

The Co-operative Group Limited is the parent and is incorporated as an Registered society under the Co-operative and Community Benefit Societies Act 2014 and is registered in England and Wales. The results of CIS General Insurance Limited are consolidated in the group headed by the Co-operative Group Limited. The financial statements of the parent organisation are available from 1 Angel Square, Manchester, M60 0AG.

29. Related party transactions

A number of transactions have been entered into during the course of the year with related parties. These have been conducted in the normal course of business and at arm's length. These include the provision of insurance products to members of the wider Co-op Group and key management personnel.

Balances at the end of the year

	Balances with parent undertaking 2018	**Balances with other related parties 2018**	Balances with parent undertaking 2017	Balances with other related parties 2017
Balances with related parties				
At the beginning of the financial year	**-**	**(12.6)**	-	(5.0)
Movement in the year	**-**	**3.0**	-	(7.6)
At the end of the financial year	**-**	**(9.6)**	**-**	(12.6)

Comparatives have been re-presented to align with current year classification.

Transactions in the year

The Co-op Group Limited, provides administration for several of its subsidiaries. CISGIL has paid £26.8m (2017: £27.7m) to the Co-operative Group Limited in relation to various services within a Master Services Agreement and other costs including estates costs and food vouchers.

Co-operative Legal Services Limited, a subsidiary of the Co-operative Group Limited, provides legal cover to CISGIL motor and home policyholders. CISGIL has paid £1.1m (2017: £1.2m) in relation to this cover.

Co-op E-Store Ltd, a subsidiary of the Co-operative Group Limited, provides electrical goods to CISGIL for marketing campaigns. CISGIL has paid £0.3m (2017: £0.1m).

CISGIL has an indemnification agreement, accounted for as an intra-group guarantee under IFRS 4, with CFSMS in which CISGIL has agreed to indemnify CFSMS against all and any defined liability, loss, damage, costs and expenses.

During the year management fees of £58.0m (2017: £66.5m) included in operating expenses and claims handling costs incurred were charged to CISGIL from CFSMS.

All amounts are stated in £m unless otherwise indicated

29. Related party transactions (continued)

Key management (as defined by IAS 24) is considered to include the members of CISGIL Board and Executive committee members.

Executive committee members are entitled to participate in the Co-operative Group wide long term incentive plan scheme which has a number of financial and non-financial performance measures. Details of transactions and balances during the financial period are provided below.

Key management compensation

	2018	2017
Salaries and short term benefits	**3.9**	4.0
Other long term benefits	**0.2**	0.4
	4.1	4.4

In respect of Executive and Non-Executive Directors

	2018	2017
Salaries and short term benefits	**1.5**	1.4
Other long term benefits	**0.1**	0.1
	1.6	1.5

In respect of the highest paid director:

	2018	2017
Salaries and short term benefits	**0.7**	0.7
Other long term benefits	**0.1**	0.1
	0.8	0.8

All staff costs are borne by CFSMS and Co-operative Group Limited, an allocation is then charged to CIS General Insurance Ltd at cost.

30. Fair values of financial assets and liabilities

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the annual report and accounts:

(a) Financial investments at fair value through income or expense

The fair value of financial assets designated at fair value through income or expense, being short term (less than one month) fixed rate deposits, approximates to their nominal amount.

(b) Available for sale assets

Fair value of listed debt securities is based on clean bid prices at the statement of financial position date without any deduction for transaction costs.

Available for sale assets are regularly reviewed for impairment. Objective evidence of impairment can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties.

These reviews give particular consideration to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

(c) Borrowed funds

Fair value measurement is calculated on a current market price.

(d) Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial.

All amounts are stated in £m unless otherwise indicated

30. Fair values of financial assets and liabilities (continued)

The table below shows a comparison of the carrying value and fair values of financial instruments for those liabilities not disclosed at fair value.

Financial liabilities	**Carrying value 2018**	**Fair value 2018**	Carrying value 2017	Fair value 2017
Borrowed funds	**68.1**	**77.8**	67.9	79.0

Financial asset and liability classification
The table below analyses financial instruments by measurement basis as detailed by IAS 39 (Financial Instruments: Recognition and Measurement).

Statement of financial position categories

2018	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
Assets					
Financial assets at fair value through income or expense	**156.0**	**-**	**-**	**-**	**156.0**
Available for sale assets	**-**	**-**	**669.5**	**-**	**669.5**
Other financial assets	**-**	**163.1**	**-**	**5.1**	**168.2**
Total financial assets	**156.0**	**163.1**	**669.5**	**5.1**	**993.7**
Non-financial assets					**135.6**
Total assets					**1,129.3**

2018	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
Liabilities					
Borrowed funds	**-**	**-**	**-**	**68.1**	**68.1**
Overdrafts	**-**	**-**	**-**	**8.1**	**8.1**
Other financial liabilities	**-**	**-**	**-**	**50.7**	**50.7**
Total financial liabilities	**-**	**-**	**-**	**126.9**	**126.9**
Non-financial liabilities					**741.1**
Total liabilities					**868.0**
Capital and reserves					**261.3**
Total liabilities and equity					**1,129.3**

2017	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
Assets					
Financial assets at fair value through income or expense	197.2	-	-	-	197.2
Available for sale assets	-	-	664.6	-	664.6
Other financial assets	-	169.5	-	15.2	184.7
Total financial assets	197.2	169.5	664.6	15.2	1,046.5
Non-financial assets					134.3
Total assets					1,180.8

All amounts are stated in £m unless otherwise indicated

30. Fair values of financial assets and liabilities (continued)

2017	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
Liabilities					
Borrowed funds	-	-	-	67.9	67.9
Overdrafts	-	-	-	5.9	5.9
Other financial liabilities	-	-	-	53.1	53.1
Total financial liabilities	-	-	-	126.9	126.9
Non-financial liabilities					761.1
Total liabilities					888.0
Capital and reserves					292.8
Total liabilities and equity					1,180.8

The following table provides an analysis of financial assets and liabilities that are valued or disclosed at fair value, by the three level fair value hierarchy as defined within IFRS 7 (Financial Instruments: Disclosure):

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Based upon guidance issued by The Committee of European Securities Regulators (CESR), CISGIL classifies debt securities in Level 1 only if it can be demonstrated on an individual security by security basis that the price quotes obtained are representative of actual trades in an active market (through obtaining binding quotes or through corroboration to published market prices). Pricing providers cannot guarantee that the prices that they provide are based on actual trades in the market. Therefore all of the corporate bonds are classified as Level 2.

Valuation of financial instruments

2018	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through income or expense	**-**	**156.0**	**-**	**156.0**
Available for sale assets	**-**	**669.5**	**-**	**669.5**
Total financial assets at fair value	**-**	**825.5**	**-**	**825.5**

Valuation of financial instruments

2017	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through income or expense	-	197.2	-	197.2
Available for sale assets	-	664.6	-	664.6
Total financial assets at fair value	-	861.8	-	861.8

All amounts are stated in £m unless otherwise indicated

30. Fair values of financial assets and liabilities (continued)

Investments in debt securities as:	Carrying amount 2018	Fair value 2018	Amortised cost 2018
Available for sale financial assets	**669.5**	**669.5**	**661.4**

Investments in debt securities as:	Carrying Amount 2017	Fair value 2017	Amortised cost 2017
Available for sale financial assets	664.6	664.6	647.3

31. Event after the Reporting Period

On 18 January 2019, Co-operative Group Limited announced its intention to sell CISGIL to the Markerstudy group, who specialise in general insurance products and complementary services. The transaction is planned to complete in Q3 2019, subject to Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) approval.

CIS General Insurance Limited
Registered under the Co-operative and Community Benefit Societies Act 2014
Registered office: Miller Street, Manchester, M60 0AL
Registered number: 29999R
www.co-opinsurance.co.uk