Westfield Health

Harder working health cover

Westfield Contributory Health Scheme Limited

Solvency and Financial Condition Report for the year ended 31 March 2017

Westfield Health
Harder working health cover

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Summary

About Westfield Health

Westfield Contributory Health Scheme Limited (Westfield Health) is a not for profit health insurance company formed almost a century ago with the vision of improving people's health and wellbeing. We help people to access and pay for health treatment. Through our charitable donations, we support the NHS and medically related charities to help our customers and the community to a healthier life.

About Westfield Health's products

Westfield Health offers two different types of insurance - health cash plans and hospital treatment insurance:

Health Cash Plan

A health cash plan allows a policyholder to claim money back, up to set limits, towards the cost of essential healthcare. It's a great way to help budget for everyday health costs. From dental appointments to optical check-ups, therapy treatment and more, policyholders can rest assured that their cover will help with the bills. Dependent children are covered too, on key benefits, giving extra peace of mind.

A health cash plan also provides access to valuable health and wellbeing services, for those unexpected health issues and to help keep policyholders at their fit and healthy best.

Hospital Treatment Insurance

Hospital treatment insurance occupies the "middle market" between health cash plans and fully-featured private medical insurance. It makes private surgery and medical treatment more accessible, so policyholders can be treated quicker. Westfield Health's prices have been kept affordable by negotiating fixed price treatment packages and excluding heart and cancer treatment (areas that the NHS already excel in) and excluding chronic conditions.

About this report

This is Westfield Health's first Solvency and Financial Condition Report under the Solvency II regulations which came into force throughout the European Union on 1 January 2016. Its purpose is to enable policyholders and other stakeholders to understand Westfield Health's business performance, governance, risk management, valuation policies, and our management of solvency and capital. It is accompanied by a number of reporting templates which set out more quantitative detail around our financial position and our solvency.

Finances

This has been a year of change for Westfield Health, investing in the future as we move towards offering a portfolio of health and wellbeing products and services. Gross premium income has fallen slightly by 0.8% reflecting the small decrease in policyholders during the year. The (consolidated) deficit for the year transferred to (UK GAAP) reserves was £4.7m.

Westfield Health's solvency ratio (measured as Own Funds divided by Solvency Capital Requirement) was 320% as at 31 March 2017 (2016 (unaudited): 384%). The regulations are designed so that a ratio of 100% should be enough capital to survive a "one-in-two-hundred year" event.

During the year we continued our longstanding practice of donating the equivalent of 1% of our gross premium income to our associated charitable trust, which in turn supports NHS trusts and other health related charities.

The table below summarises Westfield Health's financial results for the year as reported in our consolidated financial statements.

Summary Consolidated Comprehensive Income Statement	2017 £'000	2016 £'000
Deficit on insurance operations	(2,248)	(1,247)
Curtailment of pension scheme	-	5,098
Impairments and revaluations	(4,471)	(3,901)
Deficit on technical account	(6,719)	(50)
Net non-technical result	4,772	(1,167)
Deficit before charitable donations	(1,947)	(1,217)
Gift Aid and other charitable donations	(592)	(566)
Deficit before tax	(2,539)	(1,783)
Tax	(460)	176
Deficit for the year on Ordinary Activities	(2,999)	(1,607)
Actuarial (loss)/gain on pension scheme	(1,685)	2,465
(Deficit)/Surplus transferred to reserves	(4,684)	858

Customer service

We continually strive to improve customer satisfaction and this year the average claims processing time has reduced to 1.4 days, our best result for ten years. Updates to our online claims handling system, "My Westfield", have enabled even more of our policyholders to claim online. Since its relaunch we have seen a 70% increase in online claims.

Developments at Westfield Health

A major focus during the year has been the continued investment and delivery of key projects to enable Westfield Health to meet the changing demands of our policyholders and be able to respond to changes in an increasingly competitive market.

Key events, explained in more detail below, were as follows:

Event	Impact
Establishment of subsidiary companies and investment in associates	• Required investment during the year • These will allow Westfield Health to offer non-insurance services • Future diversification of income reduces reliance on health cash plan and so reduces risk
New products and partnerships	• Opportunities to develop new health & wellbeing markets
Review of IT system	• Replacement IT system development fully impaired • Financial impact of development costs and impairment charges • New replacement system will be fully aligned to future strategic business requirements
Implementation of Solvency II	• Financial cost of implementation • Opportunity taken to review governance and enhance risk management
Head office move	• Successful move to new head office • Proceeds from sale of previous head office site • Financial cost of re-fit and move • Improved working environment and enhanced opportunities for rental income

The Board of Directors has overall responsibility for the direction and governance of Westfield Health. Over recent years, the Board has put in place measures to further strengthen Westfield Health's corporate governance and risk management in preparation for Solvency II. The current governance and risk frameworks are detailed further in this report. Following several years of preparation there have been no significant changes in the current reporting period.

A. Business and performance

A.1. Business

Name, legal form and key contacts

Westfield Contributory Health Scheme Limited ("Westfield Health") is a not for profit health insurance company formed almost a century ago in 1919.

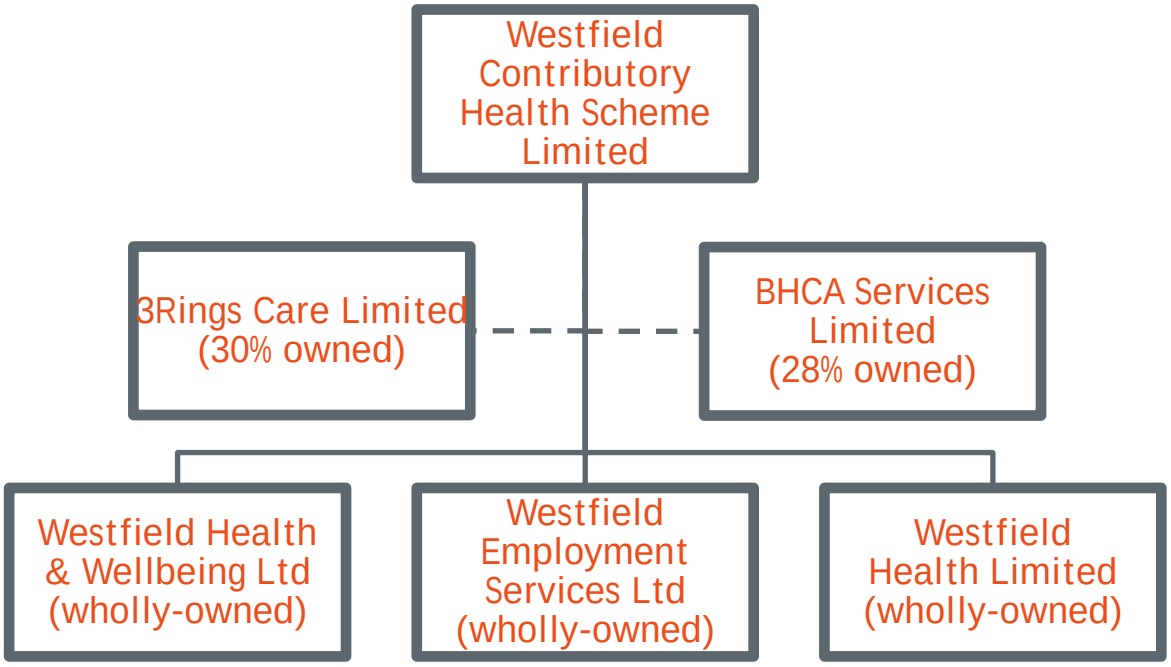
Westfield Contributory Health Scheme Limited is a company limited by guarantee, so Westfield Health has no shareholders, but rather has Members of the Company. The Company's Articles of Association prohibit Members from benefiting by their membership; there are more than 10 Members so no individual Member is considered to hold undue influence over management.

In line with Westfield Health's diversification strategy, two wholly-owned subsidiaries became operational from 1 April 2016. Westfield Health & Wellbeing Ltd provides products and services that improve people's quality of life by encouraging and enabling them to make more informed wellbeing choices. All staff transferred employment to Westfield Employment Services Ltd at the 1 April 2016; Westfield Employment Services employs people to deliver services for the companies within Westfield Health. Both subsidiaries are incorporated in England and Wales.

Westfield Contributory Health Scheme Limited also owns:

- 30% of the ordinary share capital of 3Rings Care Limited, a company incorporated in England and Wales;
- 28% of the ordinary share capital of BHCA Services Limited, a company incorporated in England and Wales; and
- 100% of the ordinary share capital of Westfield Health Limited, a dormant company incorporated in England and Wales.

The diagram below sets out the group structure of Westfield Contributory Health Scheme Limited.



Westfield Health's prudential regulator is the Prudential Regulatory Authority, Bank of England, Threadneedle Street, London, EC2R 8AH ("the PRA"); our external auditors are KPMG LLP, 1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA.

Lines of business

Westfield Health's only line of insurance business, encompassing both health cash plans and hospital treatment insurance, is health insurance within the United Kingdom and Channel Islands.

Material events during the year

This has been a year of change for Westfield Health, laying the foundations as we move towards offering a portfolio of health and wellbeing products and services. During this time of significant change Westfield Health has undertaken a number of key projects to enable progress towards its medium term strategic goals. The key projects are outlined below:

New Group structure

This year has been the first year of the new Group structure, with the subsidiaries being operational from 1st April 2016. This has enabled us to diversify in to health related markets, offering integrated health and wellbeing solutions alongside our insurance products. We continue to research new offerings on an ongoing basis.

New Head Office

We moved in to our new head office in September 2016 in Sheffield city centre. There continues to be a large amount of reinvestment and regeneration across the city. The new building has provided a modern workspace that is better suited to our needs now and in the future, as well as continuing to serve our customers. The building will also provide rental opportunities, generating a further income stream. We sold our old head office during the year, providing capital that we will be able to invest in the coming year.

Replacement IT System

During the year it became apparent that the IT system under development did not align with the future strategic needs of the business, especially regarding the diversification into health and wellbeing related markets. We have therefore recognised an impairment of £4.7m in the year.

Product Reviews & Developments

We continue to recognise the importance of reviewing our products' prices and benefits at regular intervals in order to manage increasing claims costs and to ensure our products remain relevant and competitive. Although there was an increase in the rate of Insurance Premium Tax (IPT) from 9.5% to 10.0% in October 2016, the business absorbed this extra cost and did not pass it on to our customers through price increases.

With the increase in IPT from June 2017 and further increases considered likely, future increases in premiums are anticipated. It is vital that we continue to provide excellent customer service and benefits in this highly competitive and changing market to meet the high expectations of our policyholders.

We have launched a number of new products during the year:

- Hospital Treatment Insurance – this ground breaking product is now available for individuals, providing fast access to non-urgent private treatment at an affordable price.
- Healthy Extras – this provides individuals with services in relation to their emotional wellbeing, including online wellbeing support, a 24 hour counselling and advice line, Doctorline which provides a medical helpline to UK practising GPs, as well as access to Westfield Rewards, providing discounts from online and high street retailers.
- Wellness Programme – partnered with Sheffield Hallam University, this provides employers with a proactive workplace wellbeing programme, giving their staff the tools they need to make informed lifestyle changes, helping them to be healthier, fitter, more motivated and engaged.
- Company Doctor App - a web-based app designed to provide early clinical intervention for employees via access to a number of medical services.

- 3rings plug – this smart plug provides reassurance for those who are worried about friends or family that are living alone. By attaching the plug to an everyday appliance such as a kettle, a message is sent (via the app, email, text or call) when the appliance is used. If the appliance hasn't been used an alert will be sent so friends and family can then check up on their loved one and make sure they are ok.

Solvency II

Solvency II became law on 1 January 2016. We have successfully completed each of the regulatory returns required under the new regime and are pleased to present here our first "Solvency and Financial Condition Report".

During the year we were required to submit a report on our annual "Own Risk and Solvency Assessment" (ORSA) process to the Prudential Regulation Authority (PRA) for the first time. We welcomed this opportunity following several years of embedding the ORSA process within Westfield Health. The ORSA includes a forward-looking projection of our capital position under a number of adverse scenarios, and confirms that Westfield Health expects to continue as a going concern. The scenario analysis shows that Westfield Health has sufficient capital to withstand unexpected future events and to satisfy its regulatory capital requirements for the foreseeable future.

Online Claims

Our focus on improving customer satisfaction can be demonstrated by the re-launch of the "My Westfield" claims service. This means that more customers than ever can upload their own claims through our website or our app, ensuring their claim can by processed and paid easily and quickly.

Strategic Partnerships

We became a major partner with the Advanced Wellbeing Research Centre (AWRC) during the year. The AWRC is a joint venture between Sheffield Hallam University, Sheffield Teaching Hospitals NHS Foundation Trust and Sheffield City Council. It has a unique national role in stimulating and translating research into practical initiatives designed to improve the health and wellbeing of the population. This partnership is enabling us to move forward in the development of new products and services, especially in the health and wellbeing market.

People

We have continued to invest in our people, providing training, support and development during the year. We have set up a senior leadership programme which provides a strong foundation of management during this period of change within the business and supports our succession plans for the future.

Overview of financial performance

The following sections provide some detail on Westfield Health's financial performance through the year. For reference, Westfield Health's consolidated Income & Expenditure account, as disclosed in our audited financial statements, is included below.

	2017 £'000	2016 £'000
Gross Premiums Earned	57,058	57,546
Reinsurance ceded	(784)	(585)
Third party administrative costs	(1,671)	(2,116)
Rebated premiums	(176)	(208)
	54,427	54,637
Gross claims incurred	(41,381)	(41,104)
Reinsurer's share	611	487
Net claims incurred	(40,770)	(40,617)
	13,657	14,020
Net operating expenses	(15,905)	(15,267)
Deficit on insurance operations	(2,248)	(1,247)
Curtailment of pension scheme	-	5,098
Impairment and revaluation:		
Intangible assets	(4,745)	(3,589)
Land and buildings	274	(312)
Deficit on general business technical account	(6,719)	(50)
Investment income	2,724	4,912
Unrealised gains/(losses) on investments	3,923	(5,785)
Share of losses of associates	(117)	-
Revaluation of investment property	144	(221)
Revaluation of investment in associates	(925)	-
Other income	66	2
Other items	(1,216)	-
Net finance income/(charge) in respect of pensions	173	(75)
Deficit before charitable donations	(1,947)	(1,217)
Other charges - Gift Aid and other charitable donations	(592)	(566)
Deficit on ordinary activities before tax	(2,539)	(1,783)
Tax on deficit on ordinary activities	(460)	176
Deficit for the year on ordinary activities	(2,999)	(1,607)
Other Comprehensive Income		
Actuarial (losses)/gains on pension scheme	(1,685)	2,465
(Deficit)/Surplus for the year transferred to revenue reserve	(4,684)	858

A.2. Underwriting performance

In Solvency II terms, Westfield Health has only one line of insurance business, health insurance, so we report all of our underwriting results under a single line of business. The value written in the Channel Islands is immaterial, so we do not present a geographical split.

Key performance indicators

	17/18	16/17
Gross Premiums	£57.1m	£57.5m
Gross claims ratio	72.5%	71.4%
Operating Expense Ratio	27.9%	26.5%
Combined Ratio	111.8%	100.1%

Gross premiums

Gross premiums earned, which are Westfield Health's primary source of income, decreased during the year by £0.4m (0.8%) from £57.5m to £57.1m, driven by a small decrease in policyholder numbers.

Gross claims ratio

The gross claims ratio indicates the proportion of policyholders' premiums which are paid out in claims. As a not-for-profit insurer we strive to return the best value to policyholders and therefore we aim to keep this ratio as high as possible whilst ensuring the long-term viability of Westfield Health.

During the year the claims ratio increased by 1.1% from 71.4% to 72.5%, which demonstrates even better value for our customers. This ratio excludes the additional benefits we provide policyholders through third parties.

Operating expense ratio

Operating expense ratio (total operating expenses divided by gross premiums collected) is the proportion of policyholders' premiums which are used in the running of Westfield Health. This ratio increased from 26.5% to 27.9% year-on-year. Expenditure this year has included internal restructuring costs as well as increased professional fees with regards to the first year adoption of Solvency II and increased project costs.

Combined ratio

Combined ratio is the ratio of total expenses (including claims, costs of third party benefits and operating expenses including project spend) to gross premium income, so indicates the long-term viability of the insurance offered by Westfield Health.

The combined ratio for the year stands at 111.8%. This includes the impairment on the IT system of £4.7m. This cost has a significant impact on the combined ratio; without this the combined ratio would be 103.5%. One of our medium term strategic goals is to deliver sustainable long term operating profits and this is part of the medium term financial plan.

A.3. Investments performance

Investment income and expenses

On a Solvency II basis, Westfield Health's investments were valued at £64.9m at 31 March 2017 (2016 (unaudited) £63.3m). Realised and unrealised gains and losses plus income and expenses on these, as reported in the (UK GAAP) financial statements, are set out below:

	2017 £'000	2016 £'000
Income from Investment Property - Rental income	421	524
Rental expenses	(121)	(201)
Rental expenses - Milton House	22	(464)
Income from other investments:		
Interest - Fixed Income Securities	406	410
Interest - Cash and Deposits with credit institutions	32	39
Dividends - Investment in equity instruments	599	709
Investment management fees	(262)	(237)
	1,097	780
Profits on realisation of investments		
Fixed Income Securities	920	2,181
Equity instruments	624	1,330
Recovery of deposits previously written off	83	621
	2,724	4,912
Unrealised gains or losses		
Unrealised gains/(losses) on financial investments	3,923	(5,785)
Revaluation of investment property	144	(220)
Total	6,791	(1,093)

The total return of investment income plus unrealised gains on opening investments for the year, on a UK GAAP basis, was 10.8%.

The equity portfolio increased significantly in value during the year, mirroring gains in markets across the globe; fixed income securities also posted gains. Part of the investments were drawn down to fund the final investment in the new head office and restructuring undertaken in the year; the fixed income portfolio decreased in value over the year following this divestment. Including investments in collective instruments, approximately £27.3m of the value of the investment portfolio held by Westfield Health is invested in equity instruments that are Stock Market listed and £22.1m is held in Government and corporate fixed interest and index linked securities.

In addition to the above, Westfield Health also has Investment Property with a total value of £4.7m.

No gains or losses on investments were reported directly in equity.

No direct investments are held in securitisations; Westfield Health has some indirect exposure via bond funds which include securitisations in their portfolios. Westfield Health has no appetite to use derivatives directly; asset managers may use derivatives for the purposes of risk management and efficient portfolio management.

A.4. Performance of other activities

Income and costs relating to other activities are set out in the income and expenditure account at the end of section A.1 above. "Other items" of £1.2m on the income and expenditure account relate to the cost of investment in Westfield Health's non-insurance trading subsidiaries.

Charitable giving, mainly via Westfield Health's donations to the Westfield Health Charitable Trust, has continued throughout the year in support of Westfield Health's goal of "being a good corporate citizen".

Leases

Operating leases - Lessee

At 31 March 2017 Westfield Health had annual commitments under non-cancellable operating leases, for Motor Vehicles and Office Equipment, as follows:

Expiry Date:	2017 £'000	2016 **£'000**
Less than one year	179	118
Between one and five years	112	186
Total	291	304

Operating leases - Lessor

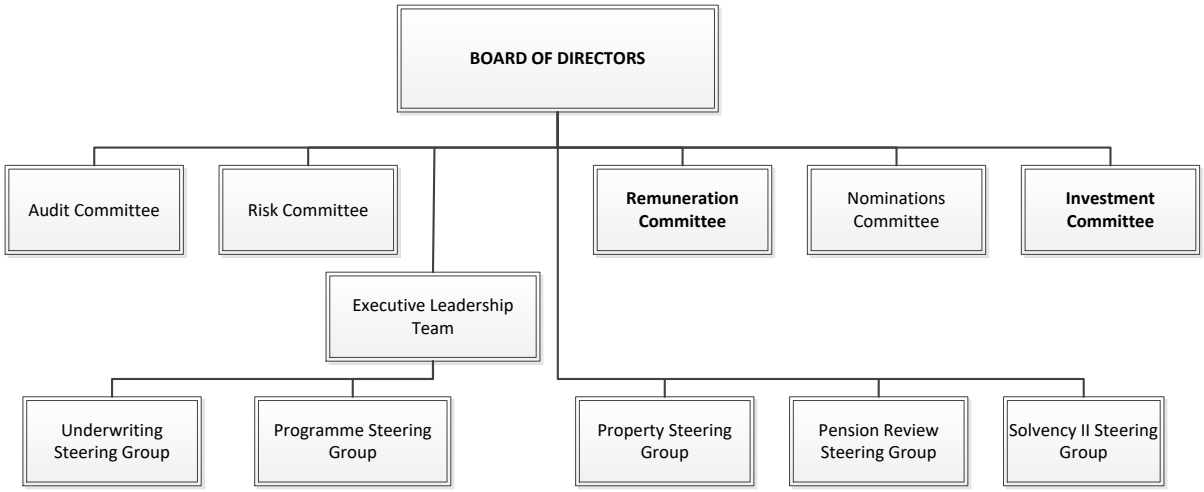
As reported in A3, total rental income during the year was £421k (2016: £524k) and expenditure in relation to these properties was £99k (2016: £665k). All of these leases had ended by year-end.

B. System of governance

B.1. General information on the system of governance

Board and committee structure and roles

Westfield Health's governance structure is laid out below.



The Board of Directors has overall responsibility for the direction and governance of Westfield Health.

The Audit Committee is entirely non-executive in composition, and has no members in common with either the Remuneration Committee or the Nominations Committee. Its role is to act as part of Westfield Health's "third line of defence", reviewing reports from internal and external audit.

The Risk Committee is comprised of a mixture of executive and non-executive directors together with the Compliance Manager, and is regularly attended by operational managers from across the business. The committee includes certain members of the Audit Committee to ensure the two groups' work is complementary.

The Remuneration Committee is responsible for review and implementation of Westfield Health's remuneration policy, particularly as it applies to executive directors. Its membership is entirely composed of non-executive directors. The Director of HR acts as an advisor to the Committee.

The Nominations Committee is responsible for ensuring that the membership of the Board remains fit and proper, including succession planning for key Board roles. The Nominations Committee comprises the Chair of Westfield Health, the Vice-Chair, Senior Independent Director, and Chief Executive. The Director of HR acts as an advisor to the Committee.

The Investment Committee is responsible for reviewing all aspects of Westfield Health's investment activities to ensure they are aligned with the Board's Investment Policy. Its membership includes the Chief Executive, the Executive Director – Finance, and the Commercial Director

The Executive Leadership Team consists of the Executive Directors. Its role includes the development of strategy for Board approval, and managing the delivery of this strategy across Westfield Health.

As can be seen from the governance structure above, there are a number of other steering groups. These are responsible for making key operational and tactical decisions, and report in to the Executive Leadership Team, which consists of the Executive Directors and the Director of HR.

This structure allows for the implementation of a "3 lines of defence" risk management system. The "first line" comprises operational management, who are responsible for ensuring that adequate systems and controls are in place to manage risks in their areas. The "second line" comprises oversight functions (Compliance, Risk Management, and Actuarial functions) who advise and support managers in this role whilst retaining some operational independence; this second line reports to the Risk Committee. The "third line" is internal audit, which reports to the Audit Committee.

Key functions

Solvency II defines four "key functions" - Internal Audit, Compliance, Risk Management and Actuarial – as essential for an effective system of governance in any insurer. Westfield Health has not identified any additional functions which it considers to be "key". To minimise repetition, information about the implementation of these functions is set out in sections of this report relating to their activities.

Key Function	Section Reference	Section Title
Actuarial	B.6	Actuarial function
Compliance	B.4	Internal Control
Internal Audit	B.5	Internal Audit
Risk Management	B.3	Risk Management

Changes to the system of governance

Westfield Health now outsources all staffing to Westfield Employment Services Limited, a wholly-owned subsidiary whose sole objective is to provide staff to Westfield Health and its subsidiary companies. This therefore means that all staff, including executive directors and key function holders, are employed by this subsidiary. There are written contracts and service level agreements between these group companies to ensure that this arrangement does not impair governance at Westfield Health. There have been no other material changes to the system of governance during the year.

Remuneration policy

Principles

Westfield Health has a written remuneration policy, the key objectives of which are to ensure that Westfield Health is able to:

- Appropriately compensate employees, Executive and Non-Executive Directors for their services and to provide a flexible, competitive remuneration structure which:
    - reflects market practice and benchmarks;
    - is aligned to the performance of the business;
    - is tailored to the specific circumstances of Westfield Health;
    - is a transparent system throughout all levels of the company;
    - attracts, motivates and retains highly skilled Board members and employees; and
    - determines remuneration in a way that ensures a level of equity and consistency across the business.

- Focus on ensuring a sound and effective risk management through:
    - a robust governance structure for setting and communicating goals;
    - inclusion of both financial and non-financial goals in performance and result assessments;
    - making fixed salaries the main remuneration component and providing an overall competitive total reward package; and
    - independent advice from external advisers.
- Support the long-term goal of being a great employer.
- Ensure that no-one will be involved in determining their own pay.

Variable remuneration and performance criteria

Westfield Health has four forms of variable remuneration, paid respectively to Executive Directors, Key Function Holders, sales staff, and other staff. In all cases, these bonus schemes are fully flexible and discretionary.

For Executive Directors, the Annual Executive Bonus rewards performance aligned to the Company's business goals and individual contribution and performance aligned to role-modelling of the Company's values. The bonus amount will be determined by Company performance across agreed key performance measures, and individual contribution determined by the achievement of objectives; behaviours displayed and the level of current and future risk that the business has been exposed to by the actions of an individual or the collective team.

The bonus is designed to ensure it supports the Executive Team in striving towards the same corporate goals and encourages the 'one team' working value.

For key function holders and other staff, the Annual Corporate Bonus rewards performance aligned to the Company's business goals.

The bonus amount will be determined by Company performance across agreed key performance measures set out on an annual basis, not all of which are financial measures. This provides an opportunity for the Company to share its successes, in an affordable way, with everyone who has contributed towards its corporate goals and promotes and encourages the 'One Team' Company value. In exceptional circumstances, a payment may still be made even when the key performance measures are not met.

Supplementary pension or early retirement schemes

There are no supplementary pension or early retirement schemes in place for any director or staff member at Westfield Health.

Material transactions with influential parties

During the year there have been no material transactions with members of the Board or Members of the Company, other than their remuneration.

The following transactions occurred in the year with other related parties:

	2017 £'000	2016 £'000
Gift aid payments:		
The Westfield Health Charitable Trust	590	561
Transactions with associates:		
Income from associates	2	-
Expenses recharged to associates	33	-
Payments to associates	(71)	-
	(36)	-

Two of the directors of Westfield Health are trustees of The Westfield Health Charitable Trust (previously called The Sheffield and District Hospital Services Charitable Fund).

One director of Westfield Health is a director of 3Rings Care Limited.

One director of Westfield Health is a director of BHCA Services Limited.

B.2. Fit & proper requirements

Westfield Health is committed to ensuring that everyone who effectively runs Westfield Health or has other key functions is fit and proper to manage the duties and responsibilities related to the key roles they are appointed to. The Nominations Committee and appointments process is crucial to strong corporate performance as well as effective accountability.

Before making an appointment the Nominations Committee will evaluate the balance of skills, knowledge and experience on the Board and will develop a role profile to take account of the role and required capabilities in areas such as:

- Market knowledge;
- Business strategy and business model;
- System of governance;
- Financial and actuarial analysis;
- Regulatory framework and requirement; and
- Risk management.

Westfield Health carries out a number of pre-employment checks for all Board and non-Board appointments including the following:

- Criminal Records Bureau - Standard disclosure;
- Address history;
- Financial propriety checks (CCJ Bankruptcy, IVA);
- Employment and personal references in line with FCA requirements;
- Passport validation;
- Qualifications vetting;
- 5 year general activity (self- employment, employment and education);
- Verification of memberships and licenses; and
- Investigative directorship search.

An annual declaration is completed by any approved person to ensure the ongoing monitoring of fitness and propriety of all approved role holders continues and is reviewed by the Nominations Committee.

B.3. Risk management

Risk management system

Throughout the year a "3 lines of defence model" has been in place in order to manage the risks faced by Westfield Health.

The first line of defence is management - managers at each level of the business are responsible for ensuring that sufficient systems and controls are in place to manage risks in their areas.

The second line consists of a designated risk management resource who provides guidance, oversight and review of our risk management framework. The Executive Director - Finance holds the regulatory responsibility for risk management as our nominated Chief Risk Officer.

The Financial Controller is the Risk Owner within the Senior Leadership Team. The Compliance Manager reports directly to the Financial Controller and supports management and the Board in ensuring that there are adequate procedures in place to meet compliance and legal requirements and to manage compliance risk.

The Risk Committee reports directly to the Board. It comprises a mixture of executive and non-executive directors together with the Compliance Manager, and is regularly attended by operational managers from across the business. The committee includes certain members of the Audit Committee to ensure the two groups' work is complementary.

The third line of defence is internal audit, which has a rolling, risk-based programme across the entire organisation. Our internal audit service has been outsourced throughout the year. This has ensured we have access to a comprehensive range of specialist skills and a truly independent internal audit function, reporting directly to the Audit Committee.

Where risks are identified, we have put in place clear policies and procedures to mitigate the identified risk to a level in line with Westfield Health's risk appetite. Westfield Health's risk framework and process is subject to regular review to ensure that it remains fit for purpose.

Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment (ORSA) process is co-ordinated by the Risk Management function with input from a wide range of stakeholders across Westfield Health. Material risks are identified and assessed by senior managers across the business. These are correlated to determine likely capital impacts, and recommendations made for additional management actions.

A range of scenarios is developed in consultation with the Risk Committee and senior management. These scenarios are then applied to Westfield Health's balance sheet model to identify their impact on capital.

The resulting ORSA report and associated recommendations are reviewed by the Risk Committee and the Board prior to final review and approval by the Board.

Recommended actions from the ORSA are a standing agenda item for the Risk Committee. Any proposed decisions which are expected to have a significant impact on either the capital or risk profile of Westfield Health are assessed by a process which includes identifying their impact on the projected capital position, and determining whether the impact is so material that the ORSA requires re-performing.

The ORSA is generally performed once per year, unless an interim ORSA is considered necessary as described above.

Capital management

The Board recognises the importance of maintaining adequate solvency to ensure the long-term stability of Westfield Health. This is particularly important as all of Westfield Health's capital comes from retained earnings.

The Board intends that Westfield Health should hold a minimum of 200% of its Solvency Capital Requirement ("SCR") on a Solvency II basis under any "base case" financial model, and a minimum of 125% of its Solvency Capital Requirement under any reasonably foreseeable adverse scenario.

B.4. Internal control

The Company's structure is relatively straightforward; its internal control system is proportionate to the complexity of the business. The Board sets the corporate culture and environment including the overall "tone from the top" around controls. It does this by setting and defining Westfield Health's strategy, risk appetite, vision, values and key policies; and by overseeing Westfield Health's operations, reviewing regular reports from management on performance against budget, strategy and risk appetite.

Managers have responsibility for ensuring the appropriate controls are in place to identify and mitigate risks to the operational areas under their responsibility.

The Risk Management and Compliance functions provide oversight around development and implementation of risk assessments and controls. The internal audit function provides a fully independent review for the Board of the efficacy of the overall control environment.

Compliance function

Role

The Compliance function supports management and the Board in ensuring that there are adequate procedures in place to meet compliance and legal requirements and to manage compliance risk.

Authority

The Compliance function acts under a mandate from the Board. The annual Compliance Plan is approved by the Risk Committee and ratified by the Board.

The Compliance function has access to:

- All areas of the business as necessary to execute the Compliance plan.
- The Chief Executive, Risk Committee and Audit Committee to report any matter that they consider puts the business at risk from non-compliance with its regulatory and legal obligations

The Compliance function is led by a suitably qualified and experienced member of staff.

Reporting

The Compliance function has a management reporting line to the Financial Controller and a functional reporting line to the Risk Committee. The Compliance function holder attends the meetings of this Committee. Written reports are submitted to each bi-monthly meeting of the Risk Committee, and quarterly to the Board.

Independence

The Compliance function's independence from the business activities that it monitors is ensured by its formal status, which is stated and communicated through the Compliance Charter. To further ensure independence, the Compliance function as a whole or its individual members are not placed in a position where possible conflict of interest may occur between compliance responsibilities and any other responsibilities.

Effectiveness

The effectiveness of the Compliance function is periodically reviewed and reported upon by the Internal Audit function.

B.5. Internal audit

Westfield Health's internal audit is outsourced to PricewaterhouseCoopers LLP ("PwC"); the role of Chief Audit Executive is fulfilled by a PwC partner and all internal audit staffing is the responsibility of PwC. The "internal audit" role required under the Senior Insurance Managers' Regime is held by Westfield's Chief Executive Officer who has regulatory responsibility for overseeing the relationship with PwC and the quality of their work.

Scope of work

All of Westfield Health's activities (including outsourced activities) and legal entities are within the scope of Internal Audit. Internal Audit determines what areas should be included within the annual audit plan by adopting an independent risk based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit programmes include obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls.

Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Audit Committee, senior management and regulators.

Responsibilities

The Chief Audit Executive is responsible for preparing the annual audit plan in consultation with the Audit Committee and senior management, submitting the internal audit plan, internal audit budget, and resource plan for review and approval by the Audit Committee, implementing the approved internal audit plan, and issuing periodic audit reports on a timely basis to the Audit Committee and senior management.

The Chief Audit Executive is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the organisation. The Audit Committee should make appropriate enquiries of management and the Chief Audit Executive to determine whether there are any inappropriate limitations to scope or resource.

Reporting and independence

The internal audit plan of work is discussed with management but the internal auditors report to the Audit Committee.

Internal Audit staff will remain independent of the business and they shall report to the Chief Audit Executive who, in turn, shall report functionally to the Audit Committee and administratively to the Executive Director – Finance.

Internal Audit staff shall have no direct operational responsibility or authority over any of the activities they review. Therefore, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Chief Audit Executive, then the Audit Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

Other PwC teams may be involved in the design and implementation of controls that will be/could be subject to internal audit review. Any such work is unrelated and the teams will be kept entirely separate. In those circumstances, the Executive Director – Finance is responsible for considering whether specific additional review procedures are needed to address any perceived impairment of objectivity.

B.6. Actuarial function

Westfield Health's insurance business is relatively straightforward. Claims are typically high-volume, low-value and are reasonably predictable using straightforward pricing models. The period between an insured event and settlement of a claim is extremely short, so technical provisions are modest compared to premiums or claims. As such the level of actuarial review required is limited.

The actuarial function is held by the Executive Director – Finance, who also holds the "Chief Actuary" role required under the Senior Insurance Managers' Regime.

Pricing is performed by the Underwriting team under the supervision of the Head of Underwriting. Significant or bespoke pricing decisions are reviewed by the Underwriting Steering Group (USG) which includes the Executive Director – Finance and the Financial Controller, who are able to provide independent review and challenge to these pricing proposals. USG decisions are periodically reviewed by the Risk Committee.

Technical provisions are calculated by the Finance department and reviewed by the Financial Controller. They are subject to external audit on an annual basis and the process of maintaining the model includes regular comparison of previous estimates to actual out-turns.

The Finance department contributes its modelling expertise to the ORSA process under the supervision of the Executive Director – Finance.

This approach to the implementation of the actuarial function is considered proportionate to the level of risk and complexity inherent in Westfield Health's business.

B.7. Outsourcing

Westfield Health's outsourcing policy calls for an assessment of the importance of the service which is to be outsourced, and specifies steps which are proportionate to the importance of the resulting arrangement. The objective of these is to ensure that all activities undertaken as an outsourced arrangement are adequately and proportionately controlled in order to ensure that the strategic objectives of our organisation and our responsibilities to our policyholders and other stakeholders are not compromised.

Westfield Health is currently using a number of outsourced service providers to provide important or critical operational functions:

Outsourced service	Location of Provider
Internal audit	UK
Provision of data centre services and internet connectivity	UK
Database management services	UK
Telephony maintenance and support	UK
E-mail filtering	USA
Storage and collection of backup media	UK

As explained in section B.1 above, Westfield Health now also outsources all staffing to Westfield Employment Services Limited, a wholly-owned subsidiary whose sole object is to provide staff to Westfield Health and its subsidiary companies.

B.8. Adequacy of governance arrangements

The Board of Directors are satisfied that the system of governance is adequate for the nature, scale and complexity of the risks inherent to Westfield Health.

C. Risk Profile

C.1. Underwriting risk

There have been no material changes in the risk exposure or means used to assess underwriting risk during the year.

Risk assessment measures

The operational 'Underwriting Steering Group' (USG) is responsible for monitoring product group performance and insurance risk. The USG is overseen by the Risk Committee.

Underwriting risk is assessed using the following measures:

Claims modelling and experience monitoring

Based on experience, Westfield Health models expected claims for each benefit, benefit limit and customer type. This allows Westfield Health to prepare a budget for each product line including the expected claim ratio. Product performance is monitored against this claim ratio and deviations are investigated.

Market monitoring and tracking of claims trends

Westfield Health's cash plan claims are driven partly by behavioural factors. Claim trends, purchasing behaviour and signals from the broader healthcare market are all monitored for indications that customer behaviour may not be in line with underwriting assumptions.

Description of material risk exposures

Risks arising from insurance contracts can be sub-divided into 3 elements as follows:

- Premium risk - risk that insurance premiums received do not cover claims paid;
- Reserve risk - risk that technical provisions for incidents incurred but not reported are inadequate; and
- Catastrophe risk - risk of a mass accident, pandemic or other incident leading to exceptionally high levels of claims.

These are explained in more detail below.

Premium risk

Health Cash Plan

The nature of Westfield Health's core health cash plan product (reported as "medical expenses insurance" for Solvency II purposes), where claims are low in value and high in volume, tends to produce only small fluctuations in claims relative to the pricing of premiums.

As noted above, claim patterns are behavioural in nature; unexpected behaviour in customer groups could therefore lead to a large volume of loss-making insurance contracts being written.

Product performance is under constant review with active monitoring of all products for indications of such adverse selection; when identified, appropriate actions are taken to mitigate risk.

Hospital Treatment Insurance

Westfield Health's hospital treatment insurance product (reported as "medical expenses insurance" for Solvency II purposes) accounts for a small proportion of premium income. The claims profile is more volatile than health cash plan claims as claim values are higher and incident rates are lower.

Prices are kept affordable by negotiating fixed price treatment packages and excluding heart and cancer treatment - areas that the NHS already excel in - and excluding chronic conditions. This also reduces premium risk because Westfield Health is not exposed to high-cost novel treatments, chronic conditions and pharmaceuticals.

Reserve risk

Health Cash Plan

Westfield Health's technical provisions for health cash plan business are small relative to premiums. This reflects the nature of this business - policyholders have 13 weeks to submit a claim from the incident date and claims are processed very rapidly on receipt.

Hospital Treatment Insurance

The nature of the product is such that claims must be reported to Westfield Health before treatment has commenced, and claims are resolved within a short timescale. This means that technical provisions and the associated reserve risk for hospital treatment insurance are small.

Catastrophe risk

Where events such as death and disablement are covered in Westfield Health plans, this cover is underwritten by a third party so there is no financial risk to Westfield Health. Whilst a catastrophic event may directly lead to increased incidents requiring hospitalisation or therapy treatments, which are covered by Westfield Health's health insurance plans, the impact of a catastrophic event is assessed not to be material for cash plans.

Investment assets and the prudent person principle

This not relevant to underwriting risk.

Risk concentration

Corporate paid business exposes Westfield Health to the risk of concentration with a single customer whose behaviour may not reflect that expected. In the case of cash plans, corporate cultures and the behaviour of the employer can lead to much higher incident rates than those anticipated. For hospital treatment insurance this is mitigated by the non-discretionary nature of surgery.

Similarly, if a corporate customer or intermediary accounts for a significant proportion of Westfield Health's income, Westfield Health's financial results become dependent on retaining this business.

The value of premiums from large accounts and via key brokers is monitored to identify potential concentrations of underwriting risk.

Risk mitigation

The following techniques are used to mitigate the risk associated with insurance risk:

Product design

Combining several benefits in one product reduces the impact of a sudden movement in behaviour on one benefit.

Product pricing

Westfield Health has a defined target claim and combined ratio. Product pricing is based on this underwriting objective.

Sales channels

Westfield Health has a combination of individual and group business, and sells to each of these customer groups both directly and through brokers. This variety of customers leads to a wider range of behaviours which mitigates behavioural risks.

Claims rules

The 13-week claim period for policyholders to submit cash plan claims mitigates the risk that there is a significant volume of incidents outstanding which have not been claimed, thus reducing the reserve risk. The claims reserve model continuously tracks deviations between estimated and actual claims.

Claim monitoring

Westfield Health uses a range of manual and automated processes to detect fraudulent or invalid claims. Rates of potentially invalid claims are tracked to assess efficacy.

Monitoring, pricing and product design

As noted above, results are continuously monitored against expectations. Insights from this monitoring are used to inform Westfield Health's regular reviews of pricing, contract terms, and benefit limits, to ensure that real, sustainable value is being provided to all of Westfield Health's customers.

Reinsurance

Westfield Health currently reinsures hospital treatment insurance, principally to protect the Company from extreme fluctuations in underwriting result. The effectiveness of this arrangement is reviewed annually by the Risk Committee, considering the cost, contract terms, potential outcomes and any potential credit risk from the reinsurance arrangement.

Risk sensitivity, stress and scenario testing

Westfield Health's ORSA looks at the total monthly and quarterly fluctuations in claim experience, separately for hospital treatment insurance and health cash plan business. These will include seasonal, random and behavioural/anti-selective fluctuations related to both types of business.

These "regular" fluctuations give an indication of the likely impact of more exceptional deviations for any of the above reasons.

The Health Insurance risk module of the Solvency Capital Requirement at the year-end was £8.6m. Westfield Health's internal estimate of a severe fluctuation in the claim ratio is significantly lower than this and therefore £8.6m is considered a highly prudent assessment of Westfield Health's sensitivity to severe adverse claims patterns.

C.2. Market risk

Risk assessment measures

Market risks are measured through the following metrics and reported regularly to the Investment Committee, both at a detailed and an aggregate level:

- Annualised volatility;
- Asset allocation and performance compared to benchmarks;
- Value-at-risk;
- Expected tail loss; and
- Losses for the current portfolio under specific stresses.

These measures have remained the same throughout the year.

Description of material risk exposures

Movement in equity markets, interest rates, credit spreads or other financial market movements can lead to losses in Westfield Health's investment portfolio. Any gains or losses arising on market movements remain unrealised until the investment is sold, when they become realised. These risks have remained the same throughout the year.

Investment assets and the prudent person principle

The "prudent person principle" of Solvency II is that insurers should select investments so that the portfolio as a whole has appropriate levels of security, liquidity and profitability, and that they should properly understand and manage the risks of all their investments. Westfield Health implements this requirement though its Investment Policy.

The Investment Policy specifies:

- A risk/return objective. Westfield Health's investments are "tiered" by target risk and return. These are aggregated to give an overall risk/return objective, whilst ensuring that a significant proportion of assets are invested in very low-risk investments;
- Approved asset classes – Westfield Health is committed to only investing where it understands the risks;
- Strategic asset allocations for each tier to prevent excess concentration in any one asset class
- Concentration limits for any one investment counterparty;
- Risk and return reporting requirements; and
- The selection of managers for each asset class.

Westfield Health's portfolio is diversified between asset classes with a particular focus on reducing "correlation" – the extent to which all of Westfield Health's assets respond in the same way to a market shock. The impact of a range of shocks is regularly modelled and monitored by the Investment Committee. Benchmarks have been approved within the Investment Policy which formalise the cautious balance between acceptable risk and return for Westfield Health's investment portfolio.

Specialist managers are used for each asset class. Throughout the year an investment consultant was also engaged to provide investment risk management advice.

Risk concentration

Westfield Health does not have any identified material risk concentrations in its investment portfolio.

Risk mitigation

The key risk management approaches are set out under "prudent person principle" above; their efficacy is assessed by tracking the measures set out above under "risk measurement".

Westfield Health has no appetite to use derivatives directly; asset managers may use derivatives for the purposes of risk management and efficient portfolio management. Several of Westfield Health's funds are hedged back to sterling by the relevant fund managers; all fund managers' performance is measured against sterling benchmarks.

Risk sensitivity, stress and scenario testing

Westfield Health's ORSA report includes an extensive section on stress and scenario analyses related to market risks.

These include the impact of equity market movements, interest rate and spread changes, currency market movements and changes in property markets.

In its balance sheet modelling, Westfield Health has also modelled the impact of a severe recession, in which:

- Equities and property fall by 20% and produce no yield for 3 years;
- Bonds fall by 10% and produce no yield for 3 years;
- Net policyholder numbers fall by 25% over 3 years; and
- Claims inflation doubles whilst pricing pressure does not allow any price increases during the 3-year period.

Westfield Health's reserves are sufficient to allow several years to adjust to such a scenario without breaching capital requirements.

The market risk module of the Solvency Capital Requirement, reflecting a "one-in-two-hundred year" shock, was £19.0m, accounting for the majority of Westfield Health's Solvency Capital Requirement.

C.3. Credit risk

Risk assessment measures

Credit checks are undertaken on suppliers and credit ratings are periodically reviewed for major financial partners (such as banks).

Policyholder debtors are reviewed and overdue balances investigated.

Description of material risk exposures

Westfield Health does not have material exposure to credit risk other than its banking relationships, which are mitigated by holding cash with reputable banks.

Some premiums are collected on Westfield Health's behalf by an intermediary; these are paid over on a monthly basis and there is never a material balance owing. Policyholder debtors are low in value; and the credit risk associated with the reinsurance arrangement is not material due to the relatively low value of the reinsurance.

Investment assets and the prudent person principle

As disclosed above, Westfield Health's Investment Policy limits its exposure to any one financial institution.

Risk concentration

As above, Westfield Health's only material credit risk arises from its banking relationships. These are not considered so material as to give rise to material credit risk concentration.

Risk mitigation

Westfield Health's key mitigation for credit risk is to maintain a low exposure. If the risk assessment measures described above suggest significant credit risk, actions are taken to reduce the risk in a manner proportionate to the risk identified.

As part of its liquidity management, Westfield Health has an upper limit for the value of cash holdings. This is partly in order to ensure that surplus cash is invested to generate returns; it also serves to limit losses in the unlikely event of the failure of a current account provider. Deposit investments are also subject to concentration limits and regular credit checks.

Risk sensitivity, stress and scenario testing

As described above, credit risk is not considered sufficiently material to include in Westfield Health's stress testing programme.

C.4. Liquidity risk

Risk assessment measures

The Finance department prepares a regular cash flow forecast to allow cash to be managed efficiently, comparing anticipated cash requirements to available cash to manage liquidity.

Forecasting and monitoring of historic cash flows allows an estimate of the maximum realistic cash which may be required over a given period and hence exposure to liquidity risk.

Description of material risk exposures

Liquidity risk could arise from a failure to ensure cash is available to meet claims, investment and operational cash flows, or if an expected cash inflow (e.g. a premium collection) fails.

Westfield Health requires all health cash plan claims to be submitted within 13 weeks of being incurred; we aim to process claims within a few days of submission. The nature of the insurance written by Westfield Health therefore means that liquidity risks are mainly short-term.

Investment assets and the prudent person principle

As discussed under "risk mitigation" below, the Investment Policy requires a high proportion of investments to be liquid in nature with restrictions on investments which are less liquid.

Risk concentration

The only identified concentration of liquidity risk is that Westfield Health uses a single bank for current account provision. For major global banking institutions, a major failure preventing customers from using their accounts is extremely rare.

Risk mitigation

Westfield Health aims to hold at least half of one month's average gross premium income over and above its working capital requirements in cash. This is enough to allow for unexpected fluctuations and large cash outflows.

At present Westfield Health's insurance liabilities are predominantly very short-term; therefore the risks associated with asset-liability mismatches arise from asset liquidity.

The liquidity profile of Westfield Health's investments is regularly reported as part of the investments management information. Any investment into assets with liquidity periods beyond twelve months is specifically authorised by the Investment Committee and advised to the Risk Committee.

A minimum of two month's gross premiums is held in assets with a liquidity term of a maximum of one month in order to allow for severe unexpected cash flows. Where breaches of this are anticipated, the Risk Committee must be notified immediately (via the Financial Controller) by the Chair of the Investment Committee, and a written plan on how the matter is to be resolved provided as soon as reasonably practical.

Expected profits in future premiums

Expected profits in future premiums are not a material factor for Westfield Health's liquidity management; as at 31 March 2017 their value was nil.

Risk sensitivity, stress and scenario testing

Given the nature of Westfield Health's insurance business, its high cash holdings and the liquid nature of its investments, long-term liquidity risk is not considered material. The liquidity requirements above were set on the basis of modelling the situation if a major cash inflow – such as a premium collection – fails. The minimum acceptable cash balance is based on Westfield Health's maximum "typical" cash outflow over a two-week period, as it may take up to two weeks to liquidate assets or get additional funding arranged in the case of a major cash inflow failing. These requirements are reviewed as part of the ORSA process.

C.5. Operational risk

Risk assessment measures

Operational risks are recorded on Westfield Health's Risk Register. Key risk areas and themes from the risk register are assessed in more detail as part of the ORSA process.

Westfield Health has recently refreshed its operational risk appetite, and now measures operational risk exposure and appetite against metrics including:

- Direct financial cost;
- Business interruption and lost time;
- Staff turnover and absenteeism;
- Reputation; and
- Regulatory breach.

Description of material risk exposures

Key risk areas include:

IT risks

IT failures could lead to significant issues, for example system downtime, lost productivity and data corruption, theft or loss. Cyber security is a key focus and is high on the Board and Risk Committee's agenda. We operate a process of continuous improvement of our systems and processes to maintain the confidentiality, integrity and availability of our business information systems and data.

Our core IT infrastructure is co-located at a specialised data centre for additional resilience, in addition we utilise Cloud services where appropriate. A business continuity/disaster recovery plan - including a backup site - is in place. We are in the process of moving our backup servers from the backup site to a second data centre which should further enhance Westfield Health's operational resilience. Our IT infrastructure and application security is under constant review and is periodically tested by independent specialists.

Key personnel

There is inevitably a degree of reliance on key personnel, whose departure could increase the risk that core processes may not operate correctly.

This risk is mitigated by staff development and training strategies. The Senior Leadership Team has been put in place to provide resilience and support succession planning. Documentation of core processes is performed so that they can be undertaken by other members of staff if necessary.

Regulation

Regulation is constantly evolving and regulatory breaches could have serious consequences for the Group including fines, reputational damage and potentially even loss of permission to operate. All of Westfield Health's major regulators have indicated that they neither expect nor want wholesale changes to regulation as a result of the UK's forthcoming exit from the EU; however this cannot be taken for granted. We therefore monitor changes to the regulatory environment carefully and regularly work with outside experts to review specific areas of our regulatory compliance.

Data protection

As a health insurance provider we hold a significant amount of personal data, of which some is classified as sensitive data.

Compliance with our Data Protection obligations continues to be a priority for Westfield Health. We require that all of our new starters undergo data protection training as part of the induction process and this is further supplemented by refresher training and competency testing on a regular basis. We have allocated resource to a project team to help ensure that the business will meet the requirements of the new General Data Protection Regulations (GDPR) by the implementation deadline of May 2018 and we have engaged with external professional support to assist with this.

Customer satisfaction

Our policyholders have come to expect excellent customer service. If this is not delivered Westfield Health's relationship with policyholders would be compromised.

Westfield Health has adopted a number of time-based quality standards in respect of its primary operations. Performance against these standards is reported internally on a monthly basis and every year Westfield Health prepares a formal performance statement on its achievement of these standards.

Suppliers and counterparties

Failure of a supplier or counterparty could lead to financial or other loss for Westfield Health or our customers.

All significant suppliers and counterparties are credit checked. For key suppliers, regular performance and credit monitoring takes place and contingency plans are developed to mitigate the consequences of supplier failure.

Investment assets and the prudent person principle

This is not relevant for operational risk.

Risk concentration

Westfield Health does not believe that it has any significant concentrations of operational risk.

Risk mitigation

The key mitigation for operational risk is operational controls, including the culture and control environment of Westfield Health. Westfield Health's Risk Committee receives regular reports on key operational risk exposures; the internal audit function also reviews operational risk areas as it considers appropriate. There is also a framework for identifying, reporting and escalating operational risk incidents.

The only "risk mitigation" (other than operational controls) used by Westfield Health for operational risk is the purchase of certain insurances such as employers' liability, property, and motor insurance.

Risk sensitivity, stress and scenario testing

Westfield Health has quantified in its ORSA the financial impacts of the key operational risks above. Westfield Health has also considered hypothetical scenarios including a major operational incident leading to significant loss of customers, regulatory sanction and reputation damage. An event of this nature would cause significant financial loss – and would reflect a breach of trust with key stakeholders - but does not pose a threat to Westfield Health's solvency.

C.6. Other material risks

Pension Funding Requirements

Westfield Health has a defined benefit pension scheme which closed to future accrual as at 31 March 2016. The last full actuarial valuation was performed as at 31st March 2015 and showed a surplus of £1.38m. The defined benefit pension scheme shows a surplus of £3.4m as at 31st March 2017 under the FRS 102 valuation. The closure of the scheme to future accrual significantly reduces the future obligations and the associated future funding requirements. Changes in financial markets, actuarial assumptions, or in regulatory measurements, can all result in changes to the funding requirements for this scheme.

Westfield Health has a professional trustee to manage the scheme and is actively involved with this trustee to ensure that the scheme is adequately funded and appropriately managed.

D. Valuation for solvency purposes

General

Solvency II requires assets and liabilities to be valued on a market-consistent basis whilst Westfield Health's financial statements are prepared on the basis of UK GAAP (FRS102 and FRS103). This is largely, but not entirely consistent with Solvency II and therefore certain adjustments are required in order to comply with the requirements of Solvency II.

The following table sets out the key differences between Westfield Health's Solvency II balance sheet and that provided in the financial statements. The full Solvency II balance sheet is presented in template S.02.01.02 in Appendix 1.

Summary balance sheet as at 31 March 2017 on Solvency II and statutory accounts bases

	Statutory accounts value £'000	Solvency II value £'000	Difference £'000
Assets			
Intangible assets	497	-	(497)
Pension benefit surplus	3,375	3,375	-
Property, plant & equipment held for own use	9,244	6,995	(2,249)
Investment Property	4,726	4,726	-
Investments in related undertakings	76	(933)	(1,009)
Equities, bonds and other financial investments	61,079	61,150	71
Reinsurance recoverables	-	(3)	(3)
Receivables	3,543	3,178	(365)
Cash and cash equivalents	3,858	3,858	-
Total assets	86,398	82,346	(4,052)
Liabilities			
Technical provisions	2,629	3,451	822
Deferred tax liabilities	1,749	1,749	-
Payables	3,907	3,907	-
Total liabilities	8,285	9,107	822
Excess of assets over liabilities	78,113	73,239	(4,874)

D.1. Assets

Value

The value of each material class of assets is set out in the Solvency II balance sheet, presented in template S.02.01.02, and summarised above.

Recognition and valuation bases, assumptions, judgements and differences

Intangible assets

Westfield Health holds software licences which are not transferable. Under UK GAAP, these are recognised at cost, less amortisation, less impairment. Under Solvency II, these are not recognised on the Solvency II balance sheet.

This has the effect of decreasing intangible assets by £497k to £nil.

Pension Benefit Surplus

Westfield Health maintains a defined benefit pension plan that is closed to future accrual as well as a defined contribution pension plan for eligible employees. The valuation of the pension plan is consistent between the financial statements and Solvency II.

Defined benefit pension plan

The operating and financing costs of the defined benefit plan are recognised separately in the Statement of Comprehensive Income, service costs are systematically spread over the service lives of employees and financing costs are recognised in the periods in which they arise. Variations from expected costs, arising from the experience of the plan or changes in actuarial assumptions, are recognised immediately in Other Comprehensive Income. The costs of individual events such as past service benefit enhancements, settlements and curtailments are recognised immediately in the Statement of Comprehensive Income. The liabilities and, where applicable, the assets of the defined benefit plan are recognised at fair value in the balance sheet. An updated valuation is performed annually by a qualified actuary using the projected unit credit method with a full valuation conducted every three years. Changes in the actuarial value of the surplus/deficit are recognised in Other Comprehensive Income.

Property plant and equipment held for own use

For the Solvency II balance sheet it has been agreed to value plant and equipment at nil, as the market value of plant and equipment is not practical or cost-effective to estimate and the Solvency II regulations do not permit the use of depreciated cost.

Property held for own use is valued on the basis of estimated market value, less accumulated depreciation since the most recent valuation, in the financial statements. The Solvency II balance sheet requires these assets to be valued at an estimated market value. There is no evidence that the market value of property held for own use has materially changed since the most recent professional valuation; therefore accumulated depreciation has been added back.

These changes have the net effect of decreasing the value of property, plant and equipment held for own use by £2,249k to £6,995k.

Investment Property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are measured at cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. Subsequently investment properties are held at fair value. A full valuation is obtained from a qualified valuer for each property every three years, with an interim valuation in any year where it is likely that there has been a material change in value. This basis is consistent between the financial statements and the Solvency II balance sheet.

Investments in related undertakings

All of Westfield Health's related undertakings are non-insurance trading companies.

For its financial statements, Westfield Health measures its investments in associates and subsidiaries at cost less any accumulated impairment losses. For the Solvency II Balance Sheet, Westfield Health measures its investments in associates at Westfield Health's share of the net assets of the associate, measured on a Solvency II basis.

This has the effect of decreasing investments held in related undertakings by £1,009k to minus £933k.

Investments - Equities, bonds and other financial investments

Differences between financial statements and Solvency II balance sheet

Westfield Health's accounting approach for its investments is consistent between the audited financial statements and Solvency II, with the following exceptions:

- For the financial statements accrued interest on bonds is included within receivables; under Solvency II this accrued interest is included in the valuation of the bond. This has the effect of increasing investments in bonds and equities by £64k and decreasing receivables by the same amount.
- For the financial statements listed assets are recognised at bid market price; for Solvency II they are recognised at mid market price. This has the effect of increasing investments in bonds and equities by £7k.

Recognition

The asset values of investments are recognised when Westfield Health becomes a party to the contractual provisions of the instrument. They are derecognised only where the contractual rights to the cash flows from the instrument expire or the instrument is sold or transferred and the sale or transfer qualifies for de-recognition.

Fixed income securities

Fixed income securities are measured initially at fair value, which is the transaction price less attributable transaction costs. Subsequent to initial recognition investments are measured at fair value.

Investments in equity instruments

Investments in equity instruments are measured initially at fair value, which is the transaction price less attributable transaction costs. Subsequent to initial recognition investments are measured at fair value.

Deposits with credit institutions

Cash deposits are measured at fair value which is the cash deposit value plus accrued interest.

Cash

Cash comprises cash balances which are repayable on demand. They are measured at fair value.

Unlisted Investments

Unlisted Investments are bonds or shares held which are not tradable on quoted listed markets. They are measured at fair value.

Realised gains or losses represent the difference between net sales proceeds and original purchase price.

Unrealised gains or losses represent the difference between the current value of investments at the balance sheet date and their purchase price. Movements in the unrealised investment gains/losses comprise the increase/decrease in the accounting period in the value of investments held at the reporting date; and the reversal of unrealised investment gains/losses recognised in earlier accounting periods in respect of investment disposals of the current period.

Fair value measurement and valuation hierarchy

FRS 102 Fair value measurement establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

- Level 1: quoted prices in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset e.g. Price of a recent transaction for an identical asset;
- Level 3: valuation technique to be used to determine arm's length price for the asset.

Listed investments totalling £49,418k are stated at bid market price and are all based on Level 1 inputs.

Deposits with credit institutions, £11,641k, are all due within 6 months. The carrying value is a reasonable approximation of fair value under Level 1 inputs.

Unlisted investments consist of small bond and shareholdings totalling £20k. These are based on appropriate valuation techniques which are categorised as Level 3 inputs.

Reinsurance recoverables

Technical provisions are calculated as set out in section D.2 below. These include an estimate for reinsurance recoverables which is not included on the financial statements balance sheet, introducing a negative balance of £3k.

Receivables

Receivables comprise policyholder debtors, reinsurance receivables, prepayments and other trade receivables, and intra-group loans. All of these are short-term receivables so the carrying value is considered a reasonable approximation to the fair value; the valuation of these is therefore consistent between the financial statements and the Solvency II balance sheet with the exception of the following:

- For the financial statements accrued interest on bonds is included within receivables; under Solvency II this accrued interest is included in the valuation of the bond. This has the effect of increasing investments in bonds and equities by £64k and decreasing receivables by the same amount.
- Westfield Health holds software licences which are not transferable, some of which are included under prepayments. Under Solvency II, software licences not recognised on the Solvency II balance sheet. This has the effect of decreasing receivables by £301k.

Level of uncertainty

Westfield Health considers that its asset valuations are subject to a low level of uncertainty.

The only significant uncertainty is around the valuation of the pension scheme surplus. The liability component is valued in line with accounting standards by an appropriately qualified actuary; as noted above changes in assumptions can have a significant impact on the valuation of the scheme surplus.

D.2. Technical provisions

Value and valuation method

Westfield Health only underwrites one line of business (health insurance); the value of technical provisions, split out into best estimate and risk margin, is set out in the Solvency II balance sheet, presented in template S.02.01.02 and are set out below:

	Statutory accounts value	Solvency II value	Difference
	£'000	£'000	£'000
Claim Provision	2,064	2,594	530
Premium Provision	565	243	(322)
Risk Margin	N/A	614	614
Technical Provisions	2,629	3,451	822

Valuation method

Best estimate claims provision

Claims reported but not paid at the balance sheet date are included based on claims settled after the reporting date. This method is the same for Solvency II and the financial statements.

Claims incurred but not reported at the balance sheet date are estimated based on statistical projections from Westfield Health's experience over the most recent 12 months, with appropriate adjustments made for identified anomalies in the data. This method is the same for Solvency II and the financial statements.

Administrative costs for the claims provision are calculated on a different basis for Solvency II and the financial statements. The financial statements include a provision for the cost of handling claims only. The Solvency II claims provision is required to include a provision for related administrative expenses, acquisition costs and overheads. For the Solvency II balance sheet this is calculated on the basis of administrative costs as a percentage of annual claims cost. This results in an increase in the best estimate claims provision of £530k from £2,064k to £2,594k.

Best estimate premium provision

In the financial statements, technical provisions comprise the best estimate claims provision (as above), premiums received not yet earned, and premium rebates due to customers under surplus share agreements.

On the Solvency II balance sheet, the premium provision consists of an estimate of the following items for contracts bound at the reporting date, up to their contract boundary:

- Premiums to be earned
- Claims to be paid
- Other expenses to be paid in relation to these contracts, as described for the claims provision.

The contract boundary for monthly renewable contracts is treated as one month after the reporting date. For annual contracts it is treated as the date of renewal of the contract; it is assumed that all contracts entering into force in the first month following the reporting date were bound before the reporting date.

Each element of the premium provision is calculated on the basis of budgeted income and expenditure; experience indicates that Westfield Health's business is highly predictable and material variances from budget are rare.

For the financial statements, the premium provision has a value of £565k; for the Solvency II balance sheet this value is £243k, a decrease of £322k.

Reinsurance recoverable

Some of Westfield Health's policies are reinsured. The technical provisions therefore include an amount recoverable against the reinsurer; this is the net of reinsurance premiums payable in relation to the premium provision, and reinsurance claims anticipated in relation to both the claim and premium provisions. This reinsurance recoverable is immaterial (net minus £3k). It is recognised as an asset on the Solvency II balance sheet but not in the financial statements.

Risk margin

The Risk Margin is not a concept used under UK GAAP and so does not appear in the financial statements. Its aim is to quantify the amount, in excess of the best estimate, which Westfield Health would have to pay a third party to take on its insurance obligations to compensate for the uncertainty in the best estimate.

The very short duration of Westfield Health's technical provisions means that the calculation is relatively straightforward as the technical provisions are extinguished within 12 months of the reporting date.

It is calculated using the Standard Formula Solvency Capital Requirement for a hypothetical insurance company which has:

- No market risk
- Immaterial Counterparty Default risk
- Net premium income last year matching that of Westfield Health, with estimated premium income next year being the estimated cash inflows associated with the technical provisions
- Net best estimate claims provision matching Westfield Health
- Health catastrophe risk matching that of Westfield Health

This Solvency Capital Requirement is multiplied by the Cost of Capital, defined by the European Commission as 6%, to give a risk margin of £614k.

The combined impact of all of these adjustments is an increase of £822k in technical provisions from £2,629k in the financial statements to £3,451k for the Solvency II balance sheet.

Level of uncertainty

Westfield Health considers that its technical provisions are subject to a low level of uncertainty. Technical provisions are low in value compared to annual premiums; claims are high-volume, low-value and are considered highly predictable. By the time of audit of the financial statements most technical provisions are extinguished allowing a high level of confidence in their value.

Adjustments

Westfield Health does not apply either a matching adjustment or a volatility adjustment to its technical provisions; neither does it apply any transitional measures in their calculation.

Other disclosures

Reinsurance recoverables

Westfield Health's reinsurance arrangement is a quota share agreement for certain products. The reinsurance recoverable is therefore a percentage of the best estimate of future claims for these products included in the premium provision.

Changes in assumptions

No material changes have been made in the assumptions used to calculate technical provisions compared to the previous reporting period.

D.3. Other liabilities

Value

The value of each material class of liabilities is set out in the Solvency II balance sheet, presented in template S.02.01.02.

Valuation bases

Deferred tax

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in associates to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Other liabilities

The nature of all of Westfield Health's other liabilities are trade payables. All of these are short-term payables so the carrying value is considered a reasonable approximation to the fair value; the valuation of these is therefore consistent between the financial statements and the Solvency II balance sheet.

Westfield Health does not have any contingent liabilities.

D.4. Alternative valuation methods

As noted above, Westfield Health has £20k of unlisted investments. The value of these is the directors' best estimate; this is considered proportionate to the small value of these investments.

D.5. Other information

Westfield Health does not have any other information to disclose regarding its valuation methods.

E. Capital management

E.1. Capital management and availability of capital

Objectives, policies and processes

All of Westfield Health's capital originates from retained earnings. The Board recognises the importance of maintaining adequate solvency to ensure the long-term stability of Westfield Health.

The Board also recognises that holding excessive reserves is an inefficient use of our policyholders' funds. The Board intends that Westfield Health should hold a minimum of 200% of its Solvency Capital Requirement (on a Solvency II basis under any "base case" financial model, and a minimum of 125% of its Solvency Capital Requirement under any reasonably foreseeable adverse scenario.

The balance sheet model is run over a ten-year period. The level of detail in the forecast decreases from a fully detailed budget for the first three years; management prepares estimates for the next two years; trends are then extrapolated for the final five years to provide an indication of the possible position in ten years' time.

Structure, amount and quality of own funds

Westfield Health has no shareholders and no debt so its only capital comes from retained earnings; this forms the "reconciliation reserve" on the Solvency II balance sheet.

Under Solvency II, own funds are classified into three tiers according to their ability to absorb losses, and only a limited proportion of own funds from lower tiers can be used to cover the Solvency Capital Requirement or Minimum Capital Requirement.

All of Westfield Health's capital, shown in the Solvency II balance sheet, is "tier one" – the highest quality capital – and is eligible to cover both the Solvency Capital Requirement and the Minimum Capital Requirement. As at 31 March 2017, Westfield Health has no deferred tax assets, which would be classed as "tier three" capital – the lowest quality capital.

Transitional arrangements

Westfield Health has no spread or concentration risk arising from exposures to EU member states' or central banks' debt which is denominated in a currency other than the state's own currency. Therefore the transitional arrangement in Article 308b(9) of the Solvency II directive is not relevant.

Westfield Health (including its pension scheme) has £36m of equity investments (directly held and via pooled funds) of which £23m were subject to the equity transitional arrangement in Article 308b(10) of the Solvency II directive as at 31 March 2017.

Other factors affecting own funds

Westfield Health has no ancillary own funds and no items have been deducted from own funds.

E.2. Capital requirements

Capital requirements

Solvency II defines two capital requirements. The Solvency Capital Requirement is an estimate of enough capital to survive a "one-in-two-hundred year" shock; the Minimum Capital Requirement is an estimate of enough capital to survive a "one-in-eight year" shock.

Westfield Health's capital requirements, and own funds available to cover those requirements, as set out in template S.23.01.01 in Appendix 1, are as follows:

	2017 £'000	2016 (unaudited) £'000
Solvency Capital Requirement	22,916	19,663
Minimum Capital Requirement	5,729	4,916
Own Funds	73,239	75,336
Own Funds: SCR	320%	384%
Own Funds: MCR	1,278%	1,532%

Solvency Capital Requirement

Under Solvency II, insurers can either use a "standard formula" or develop their own "internal model" to calculate their Solvency Capital Requirement. Internal models are mainly used by the largest insurance companies with complex risk profiles; Westfield Health uses the standard formula. The standard formula produces a capital requirement for a number of defined categories of risk (modules); the total capital requirement is reduced to allow for diversification between these categories as set out in template S.25.01.21 in Appendix 1.

Risk module	2017 £'000	2016 (unaudited) £'000
Health underwriting risk	8,591	8,902
Market risk	18,971	14,305
Counterparty default risk	967	1,017
Operational risk	1,647	1,663
Loss-absorbing capacity of deferred taxes	(1,741)	(984)
Diversification benefit	(5,519)	(5,240)
Solvency Capital Requirement	22,916	19,663

Where appropriate, the standard formula can be varied by the use of simplifications, or by the use of undertaking-specific parameters. No simplifications and no undertaking-specific parameters have been used. Where the PRA believes that there are specific issues which mean that the standard formula does not adequately reflect the risks relating to a firm, it is also able to impose add-ons to increase the Solvency Capital Requirement; the PRA has not imposed a capital add-on for Westfield Health.

The material year-on-year increase in market risk is mainly driven by an increase in the equity risk charge. This was caused in part by the larger equity exposure at year end following significant unrealised gains and in part by an increased shock factor as the rate transitions towards the full charge due in 2023.

Minimum Capital Requirement

The Minimum Capital Requirement is calculated by a linear calculation based on premiums and technical provisions, with a "floor" and "cap" of 25% and 40% respectively of the Solvency Capital Requirement. In both 2017 and 2016 the linear calculation relating to premiums and technical provisions produced a value lower than this 25% floor so Westfield Health's Minimum Capital Requirement was based on this floor. The year-on-year increase in Minimum Capital Requirement is therefore driven by the increase in Solvency Capital Requirement explained above.

E.3. Other disclosures

Westfield Health does not use a duration-based equity risk calculation.

Westfield Health has at no point been non-compliant with any capital requirements.

Westfield Health has no other information to disclose regarding its capital requirements.

Directors' Responsibility Statement

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

We are satisfied that:

- throughout the financial year in question, Westfield Health has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations applicable to the Company; and
- it is reasonable to believe that Westfield Health has continued so to comply subsequently, and will continue so to comply in future.

Jill Davies
Chief Executive
25 July 2017

Auditor's report

Report of the external independent auditor to the Directors of Westfield Contributory Health **Scheme Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit** Chapter of the PRA Rulebook applicable to Solvency II firms

Except as stated below, we have audited the following documents prepared by the Company as at 31st March 2017:

- The 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report of the Company as at 31st March 2017, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21 and S28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- information relating to 31 March 2016 voluntarily disclosed by the Company in the 'Capital management' section of the Solvency and Financial Condition Report;
- Company templates S05.01.02 and S19.01.21; and
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Relevant Elements of the Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Westfield Contributory Health Scheme Limited as at 31st March 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' section of the Solvency and Financial Condition Report, which describes the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Matters on which we are required to report by exception

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Westfield Contributory Health Scheme Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
25 July 2017

- The maintenance and integrity of Westfield Contributory Health Scheme Limited's website 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 Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix - relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.17.01.02:
    - Rows R0290 to R0310 – Amount of transitional measure on technical provisions.
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Appendix 1 - Quantitative Reporting Templates

S.02.01.02 - Balance Sheet

	Assets	Solvency II value £'000
		C0010
R0030	Intangible assets	-
R0040	Deferred tax assets	-
R0050	Pension benefit surplus	3,375
R0060	Property, plant & equipment held for own use	6,995
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	64,943
R0080	Property (other than for own use)	4,726
R0090	Holdings in related undertakings, including participations	(933)
R0100	Equities	12,030
R0110	Equities - listed	12,010
R0120	Equities - unlisted	20
R0130	Bonds	7,625
R0140	Government Bonds	5,190
R0150	Corporate Bonds	2,435
R0160	Structured notes	-
R0170	Collateralised securities	-
R0180	Collective Investments Undertakings	29,854
R0190	Derivatives	-
R0200	Deposits other than cash equivalents	11,641
R0210	Other investments	-
R0220	Assets held for index-linked and unit-linked contracts	-
R0230	Loans and mortgages	-
R0240	Loans on policies	-
R0250	Loans and mortgages to individuals	-
R0260	Other loans and mortgages	-
R0270	Reinsurance recoverables from:	(3)
R0280	Non-life and health similar to non-life	(3)
R0290	Non-life excluding health	-
R0300	Health similar to non-life	(3)
R0310	Life and health similar to life, excluding index-linked and unit-linked	-
R0320	Health similar to life	-
R0330	Life excluding health and index-linked and unit-linked	-
R0340	Life index-linked and unit-linked	-
R0350	Deposits to cedants	-
R0360	Insurance and intermediaries receivables	1,025
R0370	Reinsurance receivables	86
R0380	Receivables (trade, not insurance)	2,067
R0390	Own shares (held directly)	-
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	-
R0410	Cash and cash equivalents	3,858
R0420	Any other assets, not elsewhere shown	-
R0500	Total assets	82,346

S.02.01.02 Balance Sheet (continued)

	Liabilities	Solvency II value £'000
		C0010
R0510	Technical provisions - non-life	3,451
R0520	Technical provisions - non-life (excluding health)	-
R0530	TP calculated as a whole	-
R0540	Best Estimate	-
R0550	Risk margin	-
R0560	Technical provisions - health (similar to non-life)	3,451
R0570	TP calculated as a whole	-
R0580	Best Estimate	2,837
R0590	Risk margin	614
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-
R0610	Technical provisions - health (similar to life)	-
R0620	TP calculated as a whole	-
R0630	Best Estimate	-
R0640	Risk margin	-
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	-
R0660	TP calculated as a whole	-
R0670	Best Estimate	-
R0680	Risk margin	-
R0690	Technical provisions - index-linked and unit-linked	-
R0700	TP calculated as a whole	-
R0710	Best Estimate	-
R0720	Risk margin	-
R0740	Contingent liabilities	-
R0750	Provisions other than technical provisions	-
R0760	Pension benefit obligations	-
R0770	Deposits from reinsurers	-
R0780	Deferred tax liabilities	1,749
R0790	Derivatives	-
R0800	Debts owed to credit institutions	-
R0810	Financial liabilities other than debts owed to credit institutions	-
R0820	Insurance & intermediaries payables	352
R0830	Reinsurance payables	69
R0840	Payables (trade, not insurance)	3,486
R0850	Subordinated liabilities	-
R0860	Subordinated liabilities not in BOF	-
R0870	Subordinated liabilities in BOF	-
R0880	Any other liabilities, not elsewhere shown	-
R0900	Total liabilities	9,107

R1000	Excess of assets over liabilities	73,239

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

	Non-life	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Medical expense insurance £'000	£'000
		C0010	C0200
	Premiums written		
R0110	Gross - Direct Business	54,643	54,643
R0120	Gross - Proportional reinsurance accepted	-	-
R0130	Gross - Non-proportional reinsurance accepted		-
R0140	Reinsurers' share	785	785
R0200	Net	53,858	53,858
	Premiums earned		
R0210	Gross - Direct Business	54,873	54,873
R0220	Gross - Proportional reinsurance accepted	-	-
R0230	Gross - Non-proportional reinsurance accepted		-
R0240	Reinsurers' share	784	784
R0300	Net	54,089	54,089
	Claims incurred		
R0310	Gross - Direct Business	40,481	40,481
R0320	Gross - Proportional reinsurance accepted	-	-
R0330	Gross - Non-proportional reinsurance accepted		-
R0340	Reinsurers' share	611	611
R0400	Net	39,870	39,870
	Changes in other technical provisions		
R0410	Gross - Direct Business	(124)	(124)
R0420	Gross - Proportional reinsurance accepted	-	-
R0430	Gross - Non-proportional reinsurance accepted		-
R0440	Reinsurers' share	-	-
R0500	Net	(124)	(124)
R0550	Expenses incurred	16,291	16,291
R1200	Other expenses		-
R1300	Total expenses		16,291

S.17.01.02 Non-life technical provisions

		Direct business and accepted proportional reinsurance	Total Non-Life obligation
		Medical expense insurance £'000	£'000
		C0020	C0180
R0010	Technical provisions calculated as a whole	-	-
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-	-
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
	Premium provisions		
R0060	Gross	243	243
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(34)	(34)
R0150	Net Best Estimate of Premium Provisions	277	277
	Claims provisions		
R0160	Gross	2,594	2,594
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	31	31
R0250	Net Best Estimate of Claims Provisions	2,563	2,563
R0260	Total best estimate - gross	2,837	2,837
R0270	Total best estimate - net	2,840	2,840
R0280	Risk margin	614	614
	Amount of the transitional on Technical Provisions		
R0290	Technical Provisions calculated as a whole	-	-
R0300	Best estimate	-	-
R0310	Risk margin	-	-
R0320	Technical provisions - total	3,451	3,451
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	(3)	(3)
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	3,454	3,454

Westfield Health
Harder working health cover

S.19.01.21 Non-life insurance claims - Total non-life business

Z0010 Accident year / underwriting year: Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	Development year 0 £'000	1 £'000	2 £'000	3 £'000	4 £'000	5 £'000	6 £'000	7 £'000	8 £'000	9 £'000	10 & + £'000	In Current year £'000	Sum of years (cumulative) £'000
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	Prior												-	-
R0160	N-9	-	-	-	-	-	-	-	-	-	-		-	-
R0170	N-8	-	-	-	-	-	-	-	-	-			-	-
R0180	N-7	-	-	-	-	-	-	-	-				-	-
R0190	N-6	-	-	-	-	-	-	-					-	-
R0200	N-5	-	-	-	-	-	-						-	-
R0210	N-4	-	-	-	-	-							-	-
R0220	N-3	-	-	-	-								-	-
R0230	N-2	-	-	-									-	-
R0240	N-1	-	2,168										2,168	2,168
R0250	N	38,195											38,195	38,195
R0260													40,363	40,363

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development year 0 £'000	1 £'000	2 £'000	3 £'000	4 £'000	5 £'000	6 £'000	7 £'000	8 £'000	9 £'000	10 & + £'000	Year end (discounted data) £'000
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	Prior											-	-
R0160	N-9	-	-	-	-	-	-	-	-	-	-		-
R0170	N-8	-	-	-	-	-	-	-	-	-			-
R0180	N-7	-	-	-	-	-	-	-	-				-
R0190	N-6	-	-	-	-	-	-	-					-
R0200	N-5	-	-	-	-	-	-						-
R0210	N-4	-	-	-	-	-							-
R0220	N-3	-	-	-	-								-
R0230	N-2	-	-	-									-
R0240	N-1	-	-										-
R0250	N	2,594											2,594
R0260													2,594

S.23.01.01 Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total £'000	Tier 1 unrestricted £'000	Tier 1 restricted £'000	Tier 2 £'000	Tier 3 £'000
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	-	-		-	
R0030	Share premium account related to ordinary share capital	-	-		-	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	-	-		-	
R0050	Subordinated mutual member accounts	-		-	-	-
R0070	Surplus funds	-	-			
R0090	Preference shares	-		-	-	-
R0110	Share premium account related to preference shares	-		-	-	-
R0130	Reconciliation reserve	73,239	73,239			
R0140	Subordinated liabilities	-		-	-	-
R0160	An amount equal to the value of net deferred tax assets	-				-
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-	-
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-				
R0230	Deductions for participations in financial and credit institutions	-	-	-	-	-
R0290	Total basic own funds after deductions	73,239	73,239	-	-	-
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	-			-	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	-			-	
R0320	Unpaid and uncalled preference shares callable on demand	-			-	-
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-			-	-
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-			-	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	-			-	-
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-	-
R0390	Other ancillary own funds	-			-	-
R0400	Total ancillary own funds	-			-	-
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	73,239	73,239	-	-	-
R0510	Total available own funds to meet the MCR	73,239	73,239	-	-	
R0540	Total eligible own funds to meet the SCR	73,239	73,239	-	-	-
R0550	Total eligible own funds to meet the MCR	73,239	73,239	-	-	
R0580	SCR	22,916				
R0600	MCR	5,729				
R0620	Ratio of Eligible own funds to SCR	320%				
R0640	Ratio of Eligible own funds to MCR	1278%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	73,239				
R0710	Own shares (held directly and indirectly)	-				
R0720	Foreseeable dividends, distributions and charges	-				
R0730	Other basic own fund items	-				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-				
R0760	Reconciliation reserve	73,239				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	-				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	-				
R0790	Total Expected profits included in future premiums (EPIFP)	-				

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

		Gross solvency capital requirement £'000	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	18,971		-
R0020	Counterparty default risk	967		
R0030	Life underwriting risk	-	-	-
R0040	Health underwriting risk	8,591	-	-
R0050	Non-life underwriting risk	-	-	-
R0060	Diversification	(5,519)		
R0070	Intangible asset risk	-		
R0100	Basic Solvency Capital Requirement	23,010		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,647
R0140	Loss-absorbing capacity of technical provisions	-
R0150	Loss-absorbing capacity of deferred taxes	(1,741)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-
R0200	Solvency Capital Requirement excluding capital add-on	22,916
R0210	Capital add-ons already set	-
R0220	Solvency capital requirement	22,916
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	-
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	-
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	-
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	-
R0440	Diversification effects due to RFF nSCR aggregation for article 304	-

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010	Net (of reinsurance/SPV) best estimate and TP calculated as a whole £'000	Net (of reinsurance) written premiums in the last 12 months £'000
R0010	MCRNL Result	2,676	C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		2,840	54,089
R0030	Income protection insurance and proportional reinsurance		-	-
R0040	Workers' compensation insurance and proportional reinsurance		-	-
R0050	Motor vehicle liability insurance and proportional reinsurance		-	-
R0060	Other motor insurance and proportional reinsurance		-	-
R0070	Marine, aviation and transport insurance and proportional reinsurance		-	-
R0080	Fire and other damage to property insurance and proportional reinsurance		-	-
R0090	General liability insurance and proportional reinsurance		-	-
R0100	Credit and suretyship insurance and proportional reinsurance		-	-
R0110	Legal expenses insurance and proportional reinsurance		-	-
R0120	Assistance and proportional reinsurance		-	-
R0130	Miscellaneous financial loss insurance and proportional reinsurance		-	-
R0140	Non-proportional health reinsurance		-	-
R0150	Non-proportional casualty reinsurance		-	-
R0160	Non-proportional marine, aviation and transport reinsurance		-	-
R0170	Non-proportional property reinsurance		-	-

	Linear formula component for life insurance and reinsurance obligations	C0040	Net (of reinsurance/SPV) best estimate and TP calculated as a whole £'000	Net (of reinsurance/SPV) total capital at risk £'000
R0200	MCRL Result	-	C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		-	
R0220	Obligations with profit participation - future discretionary benefits		-	
R0230	Index-linked and unit-linked insurance obligations		-	
R0240	Other life (re)insurance and health (re)insurance obligations		-	
R0250	Total capital at risk for all life (re)insurance obligations			-

	Overall MCR calculation	C0070
R0300	Linear MCR	2,676
R0310	SCR	22,916
R0320	MCR cap	10,312
R0330	MCR floor	5,729
R0340	Combined MCR	5,729
R0350	Absolute floor of the MCR	2,139
R0400	Minimum Capital Requirement	5,729

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