Westfield Contributory Health Scheme Limited

Solvency and Financial Condition Report
for the year ended 31 March 2019

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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. By helping people to access and pay for health treatment and through charitable donations, Westfield Health supports the NHS and medically related charities to help its customers and the community to a healthier life.

Westfield Health is dedicated to making a healthy difference to the quality of life of their customers and the communities in which they live and work. Westfield Health's mission is to inspire and empower people to be the best that they can be, to deliver evidence-based health and wellbeing solutions that support people, communities and workplaces to be healthier.

Westfield Health is the parent company of the Westfield Group (the "Group") which encompasses a number of companies that operate in the health and wellbeing market.

About Westfield Health's products

Westfield Health offers two different types of insurance - health cash plans and private health 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 is 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.

Private health Insurance

Private health insurance occupies the "middle market" between health cash plans and fully-featured private medical insurance. It makes private surgery and medical treatment more accessible, to ensure policyholders can be treated as quickly as possible. Westfield Health's prices have been kept affordable by negotiating fixed price treatment packages and excluding heart and cancer treatment (areas that the NHS have established and proven pathways for) and excluding chronic conditions.

About this report

The purpose of this Solvency and Financial Condition Report is to enable policyholders and other stakeholders to understand Westfield Health's business performance, governance, risk management, valuation policies, and its management of solvency and capital. It is accompanied by a number of reporting templates which set out more quantitative detail around the financial position and solvency of Westfield Health.

This report is based on Westfield Health as a solo entity and it therefore does not need to undertake group reporting.

Finances

Gross premiums earned increased year on year from £56.9m to £61.2m, an increase of £4.3m (7.6%), mainly driven by the inclusion of 12 months' of products previously underwritten by Bolton & District Hospital Saturday Council (compared to only 3 months included in 2018 following the acquisition in December 2017).

Westfield Health's solvency ratio (measured as Own Funds divided by Solvency Capital Requirement) was 245% as at 31 March 2019 (2018: 289%). The regulations are designed so that a ratio of 100% should be enough capital to survive a "one-in-two-hundred year" event.

Westfield has donated £513k to health related charities during the year. This includes donations to the World Transplant Games 2019 in Newcastle Gateshead. The World Transplant Games are staged by The World Transplant Games Federation in order to promote the benefits of transplantation, raise public awareness and increase organ donation, whilst encouraging transplant patients to regain fitness.

Westfield has also committed to sponsoring the British Transplant Games 2019 in Newport. The Games help deliver Transplant Sports' aim to demonstrate the benefits of transplantation; to increase public awareness of the need for more people to join the NHS Organ Donation Register and discuss their wishes with their families along with bringing together the transplant community to celebrate the gift of life.

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

Summary Comprehensive Income Statement	2019 £'000	2018 £'000
Deficit on insurance operations before GMP equalisation	(1,945)	(1,808)
Defined benefit pension scheme GMP equalisation	(572)	-
Deficit on insurance operations	(2,517)	(1,808)
Revaluations	70	-
Deficit on technical account	(2,447)	(1,808)
Net non-technical result	628	(302)
Deficit before charitable donations	(1,819)	(2,110)
Gift Aid and other charitable donations	(513)	(462)
Deficit before tax	(2,332)	(2,572)
Tax	38	779
Deficit for the year on Ordinary Activities	(2,294)	(1,793)
Actuarial loss on pension scheme	(260)	(16)
Deficit transferred to reserves	(2,554)	(1,809)

Customer service

Westfield Health continually strives to achieve customer experience excellence. Net Promoter score ("NPS") is a customer loyalty metric that asks policyholders "How likely is it that you would recommend Westfield to family, friends or colleagues?" The data is collected daily.

The NPS is calculated by subtracting the percentage of detractors from the percentage of promoters. The scoring ranges from -100 (all detractors) up to +100 (all promoters). A score of +50 is deemed to be excellent. Westfield scored, on average, +79 for this financial year (2018: +81). This very high score reflects Westfield's continued commitment to customer experience excellence.

Developments at Westfield Health

The key focus for this year has been the ongoing development of the new IT system. This is explained in more detail below:

Event	Impact
Develop new IT system	• New system includes new digital capability to support business objectives • Agile approach enables future business requirements to be catered for • Requires significant capital investment • Involvement from staff across Westfield Health

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 order to meet the requirements of Solvency II. The current governance and risk frameworks are detailed further in this report. There have been no significant changes to the frameworks in the current reporting year.

In October 2018 the PRA published policy document PS25/18 "Solvency II: External audit of the public disclosure requirement". The policy removed the external audit requirement for the SFCRs of certain small Solvency II firms. Westfield Health meets the thresholds to be considered a small Solvency II firm and so this SFCR has not been externally audited.

A. Business and performance

A.1. Business

Name, legal form and key contacts

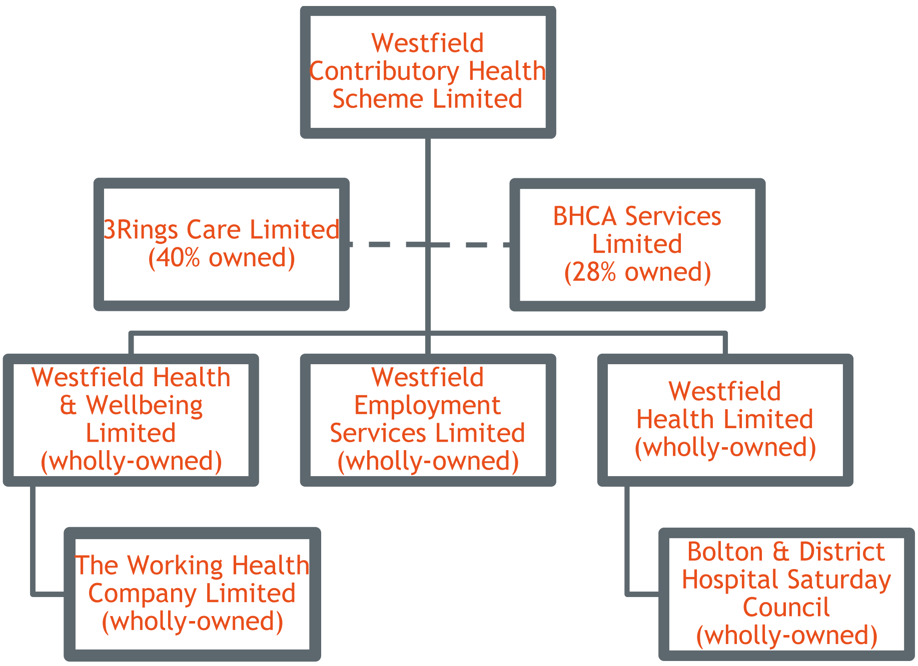
Westfield Health is a not for profit health insurance company formed almost a century ago in 1919.

Westfield Health is a company limited by guarantee, so has no shareholders, but rather has Members of the Company. Members take part in supervising the performance of the Company and its directors, to protect the interests of the Company. The Company's Articles of Association prohibit Members from benefiting as a result of their membership; there are more than 10 Members so no individual Member is considered to hold undue influence over management.

The Group comprises the following companies:

- 100% of the ordinary share capital of Bolton & District Hospital Saturday Council, a company incorporated in England and Wales;
- 100% of the ordinary share capital of the Working Health Company Limited, a company incorporated in England and Wales;
- 100% of the ordinary share capital of Westfield Health & Wellbeing Limited, a company incorporated in England and Wales;
- 100% of the ordinary share capital of Westfield Employment Services Limited, a company incorporated in England and Wales;
- 100% of the ordinary share capital of Westfield Health Limited, an investment holding company incorporated in England and Wales;
- 40% of the ordinary share capital of 3Rings Care Limited, a company incorporated in England and Wales; and
- 28% of the ordinary share capital of BHCA Services Limited, a company incorporated in England and Wales.

The diagram below sets out the group structure of Westfield Health:



Westfield Health's prudential regulator is the Prudential Regulatory Authority, Bank of England, 20 Moorgate, London EC2R 6DA ("the PRA"); its external auditors are BDO LLP, 150 Aldersgate Street, London, EC1A 4AB.

Lines of business

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

Material events during the year

During this time of 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:

Development of a new IT System

Westfield Health has continued its journey and is designing, developing and delivering the technological foundation to build Westfield Health 2.0 (WH 2.0).

WH 2.0 is a digital platform whose purpose is to deliver the future technology health of the business. The development is an on-going plan over several years, which is expected to deliver the baseline functionality to cover its core insurance business as well as providing a platform for growth and flexibility to cater for business diversification. Strong focus on achieving the benefits and efficiencies of delivering a digital customer journey with continued improvement is expected to provide a strong future foundation to enable the overall business to deliver its long-term strategy and goals. Core to this development is implementation of "Agile" strategies which will enable future business requirements, not yet defined or envisaged, to be catered for in a far more efficient and cost effective way as opposed to historical and traditional forms of technology design and implementation methodologies.

People

Westfield Health has continued to invest in its people and team purpose and are dedicated to making Westfield Health a great place to work - an environment where people inspire and empower each other to be the best that they can be. Westfield Group believes that the Westfield Team is the Group's biggest asset. Westfield staff work in partnership in the business to create a healthy workplace where they all feel connected, heard, developed, recognised and supported.

Westfield Health has restructured the Executive Leadership Team (ELT). The new ELT reflects the changing needs of the business, and helps to support the delivery of the Group strategy. This includes the introduction of a number of new roles.

The Culture and Engagement workstream has commenced. This started with a culture audit, providing insight and data to help understand and shape future areas of focus. The resulting culture and engagement programme of work is directly influenced by this insight. As a result there is now a culture and engagement strategy and this is planned to be a key part of the people strategy.

Westfield is delighted to be holders of the Investors in People Gold accreditation. This award demonstrates their commitment to high performance through good people management. Investors in People is the international standard for people management, defining what it takes to lead, support and manage people effectively to achieve sustainable results. Underpinning the Standard is the Investors in People framework, reflecting the latest workplace trends, essential skills and effective structures required to outperform in any industry. Gold is one of the highest levels of Investors in People accreditation that can be achieved and Westfield Health is incredibly proud to hold this award in recognition of the importance that the Company places on its People agenda.

Customers

Westfield Health continually strives to achieve an excellent customer experience with the average claims paid in 1.3 days across all channels this year.

The adoption of online claims has continued to increase during the year, enabling more customers to claim easily and quickly, either online or through the Westfield app. The digital adoption rate stood at 59.3%, an increase of nearly 12 percentage points compared to last year.

Westfield Health is ServiceMark Accredited with the Institute of Customer Services. This reflects Westfield's commitment to achieve customer experience excellence, as included in the medium term strategic goals.

Product Reviews and Developments

The new governance process relating to the development of propositions and partnerships is now embedded within the Group following its introduction last year. An audit was undertaken in summer 2018 resulting in improvements to the process and supporting documentation, to reinforce the need for strategic alignment and cross-departmental awareness of any ideas that are developed through this process. Roles and responsibilities for stakeholders at key touchpoints in the process were also clarified, to ensure that the process is as effective as possible.

Westfield Health continues to monitor the performance of the whole portfolio of products so that the Group can provide the best value to customers together with the most relevant benefits.

Strategic Partnerships

In January 2019 Westfield announced a strategic partnership with EXOS, a global leader in workplace wellness and human performance, and launched Wellbeing Journey, a workplace wellbeing solution combining Westfield's specialist wellbeing coaches with the interactive digital wellbeing platform 'Journey' provided by EXOS.

Wellbeing Journey takes inspiration from the elite sports methodology of 'marginal gains', where small sustainable changes have a positive cumulative effect on health and wellbeing. These healthier behaviours empower people to be the best that they can be, which will help them and the business they work for perform better. The digital wellbeing platform has personalised content which is accessible by all employees, anywhere, from any device, and is focused around the four pillars of Mindset, Nutrition, Movement and Recovery. The specialist coaching programmes are designed to target and support people, regardless of whether they are just thinking about change, preparing for change, or are ready to take action.

In September 2018, Westfield Health and Sheffield Hallam University's Advanced Wellbeing Research Centre (AWRC) launched a Knowledge Transfer Partnership (KTP) project, working with Innovate UK, a government funded organisation that funds business and research collaborations to accelerate innovation, and drive productivity and economic growth.

The KTP will academically evaluate the impact of Westfield's workplace wellbeing products and services on employees and the companies who invest in them. It works with selected organisations to assess their wellbeing needs and understand how effective Westfield's workplace wellbeing interventions are driving improved health outcomes for individuals, as well as improving key business metrics in the organisations they work for, e.g. levels of absenteeism and presenteeism. This will provide insight to develop and implement effective health and wellbeing interventions, and will help organisations better understand the return on their investment in health and wellbeing.

General Data Protection Regulation (GDPR)

The General Data Protection Regulation (GDPR) as amended by the Data Protection Act 2018 is a new privacy regulation that became enforceable from 25th May 2018. The GDPR provides individuals with more control over their personal data, ensures transparency and accountability around the use of their data and requires appropriate security and controls to protect their data. A project to ensure GDPR readiness was undertaken during the year. The requirements of this new legislation are now fully embedded and are being maintained across the Group.

Information Security Management System (ISO27001)

ISO27001 is a recognised international standard for managing risk to the security of information that is held by an organisation. It is a specification for an information security management system (ISMS) which is an approach to managing and protecting company information in terms of confidentiality, integrity and availability. Westfield Health achieved certification to this standard in May 2018 through an independent certification body and continue to audit these processes.

Charitable Donations and Sponsorship

As part of Westfield's dedication to making a healthy difference to the quality of life of their customers and the communities in which they live and work Westfield donates to health related charities, donating over £6 million over the last 10 years.

Westfield has donated £513k to health related charities during the year. This includes donations to the World Transplant Games 2019 in Newcastle Gateshead. The World Transplant Games are staged by The World Transplant Games Federation in order to promote the benefits of transplantation, raise public awareness and increase organ donation, whilst encouraging transplant patients to regain fitness.

Westfield has also committed to sponsoring the British Transplant Games 2019 in Newport. The Games help deliver Transplant Sports' aim to demonstrate the benefits of transplantation; increasing public awareness of the need for more people to join the NHS Organ Donation Register and discuss their wishes with their families along with bringing together the transplant community to celebrate the gift of life.

Overview of financial performance

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

	2019 £'000	2018 £'000
Gross Premiums Earned	61,217	56,893
Reinsurance ceded	(1,171)	(921)
Third party underwriting costs	(1,731)	(1,731)
Rebated premiums	(39)	(35)
	58,276	**54,206**
Gross claims incurred	(45,184)	(42,246)
Reinsurer's share	802	725
Net claims incurred	**(44,382)**	**(41,521)**
	13,894	**12,685**
Net operating expenses	(16,411)	(14,493)
Revaluation		
Land and Buildings	70	-
Deficit on general business technical account	**(2,447)**	**(1,808)**
Investment income	3,870	3,449
Unrealised losses on investments	(1,455)	(2,639)
Share of losses of associates	(145)	(247)
Impairment of associates	(51)	-
Provision for loans to associates	(333)	-
Other income	1,431	514
Other charges	(2,790)	(1,472)
Net finance income in respect of pensions	101	93
Deficit before charitable donations	**(1,819)**	**(2,110)**
Other charges - Gift Aid and other charitable donations	(513)	(462)
Deficit on Ordinary Activities before Tax	**(2,332)**	**(2,572)**
Tax on deficit on Ordinary Activities	38	779
Deficit for the year on Ordinary Activities	**(2,294)**	**(1,793)**
Other Comprehensive Income		
Actuarial losses on pension scheme	(260)	(16)
Deficit for the year transferred to Revenue Reserve	**(2,554)**	**(1,809)**

A.2. Underwriting performance

In Solvency II terms, Westfield Health has only one line of insurance business, health insurance, so all of the underwriting results are reported under a single line of business. The value written in the Channel Islands is immaterial, and therefore no geographical split is presented.

Key performance indicators

	18/19	17/18
Gross Premiums	£61.2m	£56.9m
Gross claims ratio	73.8%	74.3%
Operating Expense Ratio	26.8%	25.5%
Combined Ratio	104.0%	103.2%

Gross premiums

Gross premiums earned increased year on year from £56.9m to £61.2m, an increase of £4.3m (7.6%) mainly driven by the inclusion of 12 months' of products previously underwritten by Bolton & District Hospital Saturday Council (compared to only 3 months included in 2018 following the acquisition in December 2017).

Gross claims ratio

Gross claims ratio indicates the proportion of policyholders' premiums that are paid out in claims. As a not-for-profit organisation Westfield strives to return the best value to policyholders and therefore aims to keep this ratio as high as possible whilst ensuring the long-term viability of the Group.

During the year the claims ratio fell slightly from 74.3% to 73.8%, demonstrating continued value for customers. This ratio excludes the additional benefits provided to policyholders through third parties.

Operating expense ratio

Operating expense ratio is the proportion of policyholders' premiums that are used in the running of the insurance part of the Group.

Included in operating expenses is £572k relating to the cost of equalising Guaranteed Minimum Pensions (GMP). In October 2018 the UK's High Court ruled in the Lloyds Banking Group case that unequal benefits in respect of different GMP for male and female pension scheme members must be equalised. Estimates of the impact of equalising these benefits for the Group's defined benefit pension scheme (the "Scheme") have been calculated as a 2.5% uplift to the Scheme liabilities, as agreed by the Scheme trustees.

The operating expense ratio (total operating expenses: gross premiums collected) increased from 25.5% to 26.8%. By removing the costs relating to the GMP equalisation above, the underlying operating expense ratio would have been 25.9%. Westfield continues to proactively manage costs and drive best value from suppliers.

Combined ratio

The 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.

The combined ratio for the year stands at 104.1% (2018: 103.2%). Excluding the costs relating to the GMP equalisation the underlying combined ratio would have been 103.2%. One of Westfield's medium term strategic goals is to deliver sustainable long term operating profits and this is part of the medium term financial plan.

A.3. Investment performance

Investment income and expenses

On a Solvency II basis, Westfield Health's investments were valued at £63.2m at 31 March 2019 (2018 £64.2m). Realised and unrealised gains and losses plus related income and expenses on these, as reported in the FRS 102 financial statements, are set out below:

	2019 £'000	2018 £'000
Rental income from investment property	138	33
Rental expenses	(219)	(274)
Income from other investments:		
Interest - fixed income securities	401	358
Interest - cash and deposits with credit institutions	31	31
Interest - other loans	6	-
Dividends - investment in equity instruments	748	730
Investment management fees	(208)	(254)
	897	**624**
Profits on realisation of investments		
Fixed income securities	555	29
Equity instruments	2,415	2,783
Recovery of deposits previously written off	3	13
	3,870	**3,449**
Unrealised gains or losses		
Unrealised losses on financial investments	(1,455)	(2,639)
Total	**2,415**	**810**

The total return of investment income plus unrealised gains on opening investments, on a FRS 102 basis was 4.2% (2018: 2.1%).

The equity portfolio increased in value during the year by 0.8%. Fixed income securities decreased in value by 4.6%. Approximately £26.4m of the value of the investment portfolio held by the Group is invested in equity instruments that are Stock Market listed and £19.8m is held in Government and corporate fixed interest and index linked securities. £1.5m was invested in unlisted real estate funds during the year.

Deposits held with credit institutions fell from £7.2m to £5.9m. This reduction was due to funds being used for operational purposes.

Other investments held by the Group include Investment Property with a total value of £5.0m (2018: £4.8m).

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 income” of £1.4m (2018: £0.5m) on the income and expenditure account relates to the Group’s non-insurance sales. “Other charges” of £2.8m (2018: £1.4m) on the income and expenditure account relate to the cost of delivering the Group’s non-insurance business.

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 purpose of making a healthy difference to the quality of life of their customers and the communities in which they live and work.

Leases

Operating leases - Lessee

At 31 March 2019 Westfield Health had annual commitments under non-cancellable operating leases, for Motor Vehicles, Short Term Office Space and Office Equipment, as follows:

	2019	2018
Expiry Date:	**£'000**	**£’000**
Less than one year	242	104
Between one and five years	261	53
Total	**504**	**157**

Operating leases - Lessor

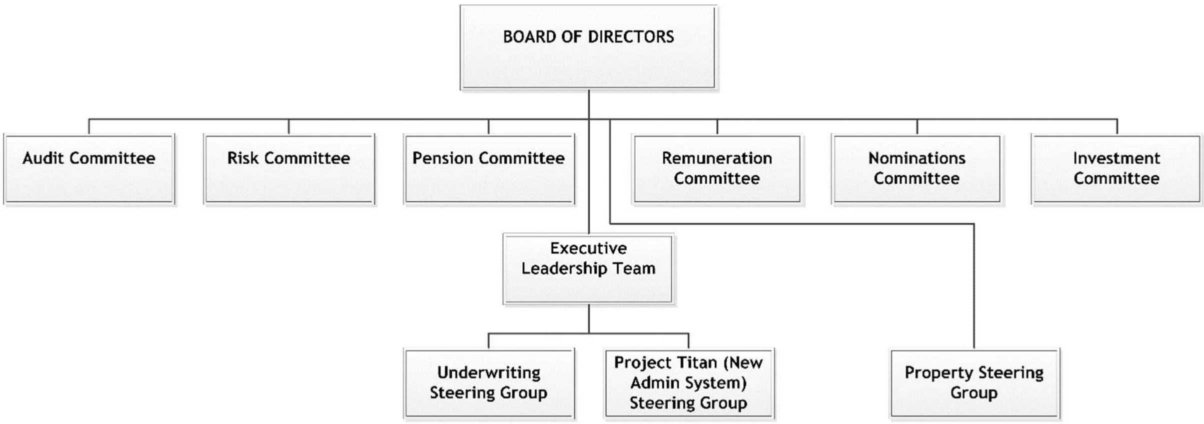
As reported in A3, total rental income during the year was £138k (2018: £33k); the increase is due to tenants starting to lease the available floors of Westfield House. Expenditure in relation to these floors was £219k (2018: £274k).

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:



Westfield Health is a company limited by guarantee, so has no shareholders, but rather has Members of the Company. Members take part in supervising the performance of the Company and its directors, to protect the interests of the Company. The Company's Articles of Association prohibit Members from benefiting as a result of their membership; there are more than 10 Members so no individual Member is considered to hold undue influence over management.

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 and is regularly attended by the Risk Manager, the Compliance Manager and other operational managers from across the business. The committee includes certain members of the Audit Committee to ensure the two groups' work is complementary.

The Pension Committee is comprised of a mixture of executive and non-executive directors and reviews the operation of the group's defined benefit, defined contribution and life assurance schemes.

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. A representative from 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. This includes selecting and recommending candidates, and succession planning for key Board roles, including executive and non-executive directors, and members. The Nominations Committee comprises the Chair of Westfield Health, Chief Executive, Vice-Chair and Senior Independent Director. A representative from 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 comprises a mixture of executive directors and other key members of the business.

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

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

The Chief Executive, Jill Davies, retired from Westfield on 30th April 2018. Jill has been a committed and loyal part of Westfield for 24 years, with 10 years as the Chief Executive. The Group wishes Jill and her family every success, happiness and health in the future.

David Capper (previously Interim Chief Executive) was appointed as the permanent Chief Executive for Westfield on the 9th October 2018. The Chief Operating Officer Andrew Radi resigned as an Executive Director on 29th March 2019 and Non-Executive Director Kevin Bardsley resigned on 5th March 2019. Jason Hogan (previously Chief Financial Officer & Deputy Chief Executive Officer) has been appointed as Chief Operating Officer & Deputy Chief Executive Officer.

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 people; 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, Executive Leadership Team, sales staff, and other staff. In all cases, these bonus schemes are fully flexible and discretionary.

For Executive Directors and the Executive Leadership Team, the Annual Executive Bonus rewards performance aligned to the Group's business goals and individual contribution and performance aligned to role-modelling of the Group's values. The bonus amount is determined by Group 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 Leadership Team in striving towards the same corporate goals and encourages the 'one team' working value.

For sales staff, the bonus scheme is based on the income generated by individual sales consultants and is calculated on a monthly basis. There is also a quarterly bonus based on the individual's portfolio value.

For other staff, the Annual Corporate Bonus rewards performance aligned to the Group's business goals.

The bonus amount is determined by Group 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 Group to share its successes, in an affordable way, with everyone who has contributed towards its corporate goals and promotes and encourages the 'One Team' Group value.

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:

	2019 £'000	2018 £'000
Gift aid payments:		
The Westfield Health Charitable Trust	439	461
Transactions with associates:		
Income from associates	12	4
Expenses recharged to associates	-	24
Payments to associates	(46)	(72)
	(34)	(44)

Two of the directors of Westfield Health are trustees of The Westfield Health Charitable Trust.

During the year one director of Westfield Health was a director of 3Rings Care Limited "3Rings" (resigned 7 June 2018).

The services provided by 3Rings ceased on 1st March 2019. This has led to a write down of the Company's 40% shareholding to £nil, at a cost to the Group of £198k. At 31st March 2019 there was a loan (including interest) owed to the Company by 3Rings of £333k. This loan no longer expected to be repaid and therefore a provision has been included for the full amount.

During the year one director of Westfield Health was a director of BHCA Services Limited (retired from Westfield Health 30 April 2018).

B.2. Fit & proper requirements

Westfield Health is committed to ensuring that everyone in leadership roles 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 in respect of Board members 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;
- Leadership;
- 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;
- Establishing if there is any evidence of regulatory sanctions or prohibitions;
- 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 and is reviewed by the Nominations Committee.

All people in key leadership roles, including Non-Executives, participate in the mandatory training programme that is provided to all colleagues across the Group. This includes training on topics such as Anti-Bribery, Whistleblowing, Treating Customers Fairly and GDPR. Learning is completed in both face-to-face and online settings.

Westfield has ensured that the Company is compliant with the Senior Managers and Certification Regime, which enhances the Approved Persons Regime.

B.3. Risk management

Risk management system

At Westfield Health, a standard 3 lines of defence model is used to manage risks and to ensure controls are operating effectively.

The first line of defence comprises operational management whereby relevant managers at appropriate positions within the business manage pertinent systems, controls and provide assurance that risks are being mitigated effectively.

The second line consists of a dedicated Risk Manager who provides guidance, oversight and review of the risk management framework and a Compliance Manager who 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 Chief Operating Officer holds the regulatory responsibility for risk management as nominated Chief Risk Officer/SIMF4 holder. The Compliance Manager reports directly to the Director of Finance 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.

During 2018/19, a new Risk Register process was introduced which enabled management to have a more granular and detailed view of the key strategic risks. The principle risks, uncertainties and controls were identified via this new process and were managed proactively during the year aligning with Westfield's agreed Risk Appetite. Westfield's risk framework and process is subject to regular review to ensure that it remains fit for purpose

The Risk Committee reports directly to the Board. It comprises a mixture of executive and non-executive directors together with the Risk and Compliance Managers, and is regularly attended by operational managers from across the business. It provides regular scrutiny of the Risk and Compliance function. The committee includes members of the Audit Committee to ensure the two committees are aligned.

The third line of defence is an independent outsourced internal audit function which allows us to have access to a range of specialist skills and best practice knowledge which reports directly to the Audit Committee. The function agrees an annual audit plan with the Audit Committee and the Board and conducts risk-based audits throughout the organisation during the year.

Where risks are identified, clear policies and procedures are put in place 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. All Board proposals include a section on capital and solvency implications to ensure consideration is given to them.

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 150% 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 of the effectiveness of the control environment for the Board.

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.

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 Director of Finance 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 quarterly meeting of the Risk Committee and 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 prescribed responsibility for internal audit oversight required under the Senior Managers & Certification Regime is held by Westfield's Chief Operating Officer.

Scope of work

All of Westfield Health's activities (including outsourced activities) and legal entities are within the scope of Internal Audit. Internal Audit recommends which 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 makes 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 remain independent of the business and report to the Chief Audit Executive who, in turn, report functionally to the Audit Committee and administratively to the Chief Operating Officer.

Internal Audit staff have no direct operational responsibility or authority over any of the activities they review. Therefore, they do 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 Chief Operating Officer 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 Chief Operating Officer, 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 Director of Strategic Planning & Insight. Significant or bespoke pricing decisions are reviewed by the Underwriting Steering Group (USG) which includes the Chief Operating Officer, the Director of 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 Chief Operating Officer.

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 the Group and its responsibilities to 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
Software development	Romania, UK
Cloud hosting	UK, Ireland

Westfield Health also outsources all staffing to Westfield Employment Services Limited, a wholly-owned subsidiary whose sole object is to provide staff to the Westfield Group.

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

From 1st April 2018, Westfield Health began underwriting the products sold by Bolton & District Hospital Saturday Council (BDHSC). The cashplans of BDHSC are materially in line with products already underwritten by Westfield Health and so no material change to the underwriting risk exposure or means used to assess underwriting risk occurred 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 other 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.

Private Health Insurance

Westfield Health's private health 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 whilst 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 have established and proven pathways – 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 the health cash plan business are small relative to premiums. This reflects the terms of business - policyholders have 13 weeks to submit a claim from the incident date and claims are processed promptly on receipt.

Private Health Insurance

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

Catastrophe risk

Where events such as death and disablement are covered in Westfield Health plans, this cover is mostly underwritten by a third party, limiting the 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 is 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 private health insurance this is mitigated by the non-discretionary nature of the procedures covered.

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 monitors 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 the effectiveness of these processes.

Monitoring, pricing and product design
As noted above, results are regularly 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 customers.

Reinsurance
Westfield Health currently reinsures private health 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 private health 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 £9.4m. Westfield Health's internal estimate of a severe fluctuation in the claim ratio is significantly lower than this and therefore £9.4m 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;
- 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 effectiveness 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 32% 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 £23.5m, 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, whose credit ratings are regularly monitored.

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 a material concentration of credit risk.

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; the aim is to process claims promptly upon receipt. 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. Westfield Health has access to a separate bank in the event of any issues experienced by the main banking provider.

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 estimated to be 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 2019 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's risk appetite 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:

Investment management risks

The risk of adopting an inappropriate investment strategy or inadequate implementation and management of the chosen investment strategy. Investing in assets with a higher risk profile than expected or a lack of management controls could result in unexpected losses to the business.

The portfolio is diversified between asset classes with a particular focus on reducing “correlation” – the extent to which all of the Group’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 and Risk Committee. Benchmarks have been approved which formalise the cautious balance between acceptable risk and return for the Group’s investment portfolio within the Group’s investment policy.

Segregation of duties, multiple signatories on investment accounts and multiple stages of review mitigate the risk of inadequate implementation and management of the investment portfolio.

Insurance Premium Tax (IPT) increases

The threat of IPT increases remains and the likelihood of these increases are outside of Westfield’s control. The government raising the rate of IPT as a response to prevailing economic conditions is an increasingly likely scenario. Other mandatory insurance rises due to IPT may reduce client appetite for discretionary insurance products including health insurance.

Westfield has considered the impact on policyholders of an increase of IPT and how or when this would be passed on to policyholders through scheme changes. An IPT Working Group has been established for multiple scenario analyses and contingency planning.

Given the disparity of IPT charges on health insurance across Europe and the positive benefits that cash plans provide to the UK healthcare system, it would appear unfair to raise the cost to the end consumer following further rate increases. Therefore, Westfield are working with trade bodies who lobby the Government on the issue of charging IPT on health insurance.

Business strategy

This risk entails senior management setting the wrong strategy or being unable to execute the right strategy. As Westfield continues to widen its offering in the growing Health & Wellbeing market, both organically and through acquisitions, it is important to recognise the need for an appropriate strategy to ensure strategic alignment across the Group. There is also a risk that key decisions are made with a short-term view rather than long term at the expense of long-term strategy goals which means that they may not achieved or only partially achieved.

Key management information is shared with the Board on a monthly basis. The Board also regularly meets to review the Group’s business planning and strategy development. This includes the review of detailed budgets for the next five years and higher level planning for the next six to ten years, including the impact of the strategy on capital and solvency requirements. Department functional plans aligning reward with strategy deliverables are reviewed and prioritised as part of the development of the strategic plans, to ensure that the business is focussed on delivering the right projects and prioritising appropriately. There is governance from various committees as part of the decision making process including the Investment Committee and the Underwriting Steering Group. There is a long-term HR strategy in place to support the delivery of strategic objectives.

New IT system

Significant resource and business energy is being invested into the creation of a new digital platform. Due to the overall scale of the project to deliver WH 2.0 there are a number of risks:

- Implementation takes longer, costs more or fails to provide the correct functionality needed by the business;
- The new system is developed to match historical activities rather than current and future requirements;
- Promised improvements do not manifest themselves in terms of financial benefit and operational efficiency.

To mitigate the risks:

- Multiple points of controls and reviews have been implemented across different stakeholders in the business from the board, through Finance and Operations. Additionally, external review and advice at key milestones is being sought.
- Adopting Agile principles significantly reduces the risk of a total failure of the project, but more work and investment may be required to get to a satisfactory critical mass of functionality. However, by embracing the principle of continual improvement and re-usable and replaceable micro-services helps provide comfort in this area.
- A team of delivery managers are tasked to work closely with business stakeholders to define current and future requirements and agree business simplification where possible.

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. Westfield operates a process of continuous improvement of their systems and processes to maintain the confidentiality, integrity and availability of business information systems and data through the Information Security Management System (ISMS) which is certified to the ISO27001 standard.

The entire IT infrastructure is located at a specialised data centre for additional resilience, in addition Cloud services are utilised where appropriate. A business continuity/disaster recovery plan, including a backup data centre and business continuity location, is in place. The IT infrastructure and application security and resilience is under constant review and is periodically tested by independent specialists.

Insurance risks

Plans are priced based on existing underwriting experience data, with validated key assumptions and pricing methodology. If policyholder behaviour or healthcare costs change, there is a risk that premiums will not be sufficient to meet claims – or that premiums will prove excessive, which is not in the best interests of policyholders.

In order to protect the stability of underwriting margins, claims trends are actively monitored on an ongoing basis to identify any significant changes in claims experience and allow prices to be adjusted accordingly. Westfield continues to invest in underwriting data mining and analytics which will further enhance the Company's insurance risk management capabilities.

Pension funding requirements

The Company 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 2018 and showed a surplus of £2.1m. The defined benefit pension scheme shows a surplus of £2.9m as at 31st March 2019 under the FRS 102 valuation. The closure of the scheme to future accrual significantly reduces the expected cost of providing benefits in the future. Changes in financial markets, actuarial assumptions, regulatory requirements and other factors can all result in changes to the funding requirements for this scheme.

In October 2018 the UK's High Court ruled in the Lloyds Banking Group case that unequal benefits in respect of different Guaranteed Minimum Pensions (GMP) for male and female pension scheme members must be equalised. Estimates of the impact of equalising these benefits for the Group's defined benefit pension scheme (the "Scheme") have been calculated as a 2.5% uplift to the Scheme liabilities, as agreed by the Scheme trustees. This estimated cost of £572k has been included in Operating Expenses.

The pension scheme has a professional trustee, who is actively involved with the Company to ensure that the scheme is adequately funded and appropriately managed.

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 strong leadership, staff development and coaching and training strategies. Succession planning continues to be developed across the Company. Documentation of core processes is performed so that they can be undertaken by other members of staff if necessary.

Suppliers and counterparties

Failure of a supplier or counterparty could lead to financial or other loss for the Group or their 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. The contracts register is centrally held and is reviewed and updated regularly.

Liquidity

The Company needs to ensure that it has sufficient liquid resources to meet its liabilities as they fall due. Claims and day-to-day expenses are broadly matched with premium income. However, claims do show some volatility leading to some unpredictability in cash outflows. To mitigate this risk, the Company holds sufficient excess cash to cover all but the most extreme variances and the majority of the Company's investments can be liquidated within one week. To ensure that an appropriate level of cash is retained, regular cash flow and liquidity modelling is undertaken.

Regulation

Regulation is constantly evolving and regulatory breaches could have serious consequences for the Company including fines, reputational damage and potentially even loss of permission to operate. All of Westfield Health's major regulators have indicated 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. Changes to the regulatory environment are monitored carefully and regularly work with outside experts to review specific areas of Westfield Health's regulatory compliance.

Data protection

As a health insurance provider the Company holds a significant amount of personal data, some of which is classified as special category data. Compliance with Data Protection obligations continues to be a priority for Westfield. All new starters undergo data protection training as part of their induction process and this is further supplemented by refresher training and competency testing on a regular basis. A Data Protection Officer has been appointed, as required by the regulation, to ensure legal obligations are continually met. Furthermore, appropriate resources, including external professional support were allocated to a project team to ensure the organisation met the requirements of the new General Data Protection Regulations (GDPR) prior to the implementation deadline of 25th May 2018.

Customer experience

The Company's customers have come to expect an excellent customer experience with Westfield Health. If this is not delivered the Company's relationship with customers would be compromised, leading to loss of business.

The Company has adopted a number of time based quality standards in respect of its primary operations. The performance against standard as well as the Net Promoter Score is reported internally on a monthly basis and every year the Company prepares a formal performance statement on its achievement of these standards.

UK leaving the EU (Brexit)

Whilst the direct impact of Brexit on Westfield's business strategy is deemed to be limited, indirect impacts and increased uncertainty including potential recession-like conditions within the UK economy is expected to negatively influence the Company's marketplace in all Brexit scenarios. The market environment is continually assessed as part of Westfield's business strategy planning. All current principal risks and uncertainties may be exacerbated by the UK leaving the EU.

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 the financial impacts of the key operational risks noted above in its ORSA. Westfield Health has also considered hypothetical scenarios including a major operational incident leading to significant loss of customers, regulatory sanction and reputational 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

The Company 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 2018 and showed a surplus of £2.1m. The defined benefit pension scheme shows a surplus of £2.9m as at 31st March 2019 under the FRS 102 valuation (2018: £3.6m). The closure of the scheme to future accrual significantly reduces the expected cost of providing benefits in the future. Changes in financial market conditions, actuarial assumptions, regulatory requirements, and other factors can all result in changes to the funding requirements for this scheme.

The pension scheme has a professional trustee, who is actively involved with the Company 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 statutory 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 2019 on Solvency II and statutory accounts bases

	Statutory accounts value £'000	Solvency II value £'000	Difference £'000
Assets			
Intangible assets	1,860	-	(1,860)
Pension benefit surplus	2,874	2,874	-
Property, plant & equipment held for own use	8,131	7,065	(1,066)
Investment Property	4,979	4,979	-
Investments in related undertakings	1,004	1,043	39
Equities	10,124	10,124	-
Bonds	7,772	7,850	78
Collective Investments Undertakings	33,322	33,327	5
Deposits other than cash equivalents	5,922	5,922	-
Other loans and mortgages	-	-	-
Reinsurance recoverable	181	2	(179)
Receivables	2,184	1,818	(366)
Cash and cash equivalents	2,986	2,986	-
Total assets	**81,339**	**77,990**	**(3,349)**
Liabilities			
Technical provisions	2,902	3,073	171
Deferred tax liabilities	1,427	1,427	-
Payables	4,578	4,578	-
Total liabilities	**8,907**	**9,078**	**171**
Excess of assets over liabilities	**72,432**	**68,912**	**(3,520)**

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 valued at £nil on the Solvency II balance sheet as they are not considered readily convertible to cash.

This has the effect of decreasing intangible assets by £1,860k 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 liabilities and, where applicable, the assets of the defined benefit plan are recognised at fair value in the balance sheet. An updated valuation for accounting purposes is performed annually by a qualified actuary using the projected unit credit method with a full valuation for funding purposes conducted every three years by the defined benefit plan's appointed actuary.

Property plant and equipment held for own use

Plant and equipment has been valued at nil on the Solvency II balance sheet, as their market value 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 (Westfield House was last valued at March 2017), 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 £1,066k to £7,065k.

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 internal review of carrying value undertaken in the intervening years. This basis is consistent between the financial statements and the Solvency II balance sheet.

Investments in related undertakings

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 increasing investments held in related undertakings by £39k to £1,043k.

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 £78k 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 collective investment undertakings by £5k.

Apart from the differences mentioned above, the SII valuation and recognition of investments follows the FRS 102 treatment as per the financial statements:

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 in real estate funds are valued in line with the net asset valuation of the fund as communicated by the fund manager. Unlisted Investments in bonds and shares which are not tradable on quoted listed markets are measured at cost which is deemed to represent fair value.

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 £49,724k are stated at mid-market price on the Solvency II balance sheet and are all based on Level 1 inputs.

Deposits with credit institutions, £5,922k, are all due within 6 months. The carrying value is a reasonable approximation of fair value under Level 1 inputs.

Unlisted investments consist of an investment in an unlisted real estate fund of £1,475k and other 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. Part of these provisions are recoverable through reinsurance. In the financial statements the associated recoverable is £181k, representing the reinsurer's share of claims that have been provided for in the technical provisions. Reinsurance recoverables calculated for Solvency II purposes total £2k representing the reinsurer's share of claims in relation to both the claim and premium provisions. Reinsurance on the Solvency II premium provision is net of premiums paid to the reinsurer and so is lower than the financial statement reinsurance recoverable which does not include these.

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 £78k 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 £289k.

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. Key assumptions underlying the liability component are selected with the assistance of an appropriate qualified actuary and the liability is valued in line with accounting standards; 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:

Gross Technical Provisions	Statutory accounts value £'000	Solvency II value £'000	Difference £'000
Claim provision	2,450	2,826	376
Premium Provision	452	(413)	(865)
Risk Margin	N/A	660	660
	2,902	**3,073**	**171**

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 £376k from £2,450k to £2,826k.

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 £452k; for the Solvency II balance sheet this value an asset of £413k, a difference of £865k.

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 £660k.

The combined impact of all of these adjustments is an increase of £171k in technical provisions from £2,902k in the financial statements to £3,073k 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

There is no difference between the valuation of deferred tax in the Solvency II balance sheet or the financial statements balance sheet.

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 in D.1., Westfield Health has £20k of unlisted investments in bonds and equities held at cost. This valuation is the directors' best estimate and 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 policyholders' funds. The Board intends that Westfield Health should hold a minimum of 150% 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.

There have been no changes to the capital management policies and objectives during the reporting year.

Structure, amount and quality of own funds

Westfield Health has no shareholders and no debt so the capital in the financial statements comes from retained earnings. The excess of assets over liabilities on the Solvency II balance sheet forms the "reconciliation reserve"; this reconciliation reserve constitutes all of Westfield Health's "own funds" for Solvency II reporting purposes.

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 2019, 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 £38m of equity investments (directly held and via pooled funds) of which £20m were subject to the equity transitional arrangement in Article 308b(10) of the Solvency II directive as at 31 March 2019.

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:

	2019 £'000	2018 £'000
Solvency Capital Requirement	28,098	24,479
Minimum Capital Requirement	7,025	6,120
Own Funds	68,912	70,848
Own Funds : SCR	245%	289%
Own Funds : MCR	981%	1,158%

The annual movement in own funds represents the deficit generated by Westfield Health for the year.

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.

	2019 £'000	2018 £'000
Health underwriting risk	9,424	8,999
Market risk	23,456	20,130
Counterparty default risk	560	413
Operational risk	1,785	1,625
Loss-absorbing capacity of deferred taxes	(1,238)	(1,290)
Diversification benefit	(5,889)	(5,398)
Solvency Capital Requirement	**28,098**	**24,479**

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 currency risk charge. This was predominantly caused by a decision to disregard currency hedges to GBP within funds this year following external guidance that they may not meet the necessary requirements by EIOPA to be considered as risk mitigation techniques. This is a prudent position to take and will be further reviewed during the next year.

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 2019 and 2018 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 to comply subsequently, and will continue to comply in future.

David Capper

Chief Executive

1 July 2019

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	2,874
R0060	Property, plant & equipment held for own use	7,065
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	63,244
R0080	Property (other than for own use)	4,979
R0090	Holdings in related undertakings, including participations	1,043
R0100	Equities	10,124
R0110	Equities - listed	10,104
R0120	Equities - unlisted	20
R0130	Bonds	7,850
R0140	Government Bonds	4,871
R0150	Corporate Bonds	2,979
R0160	Structured notes	-
R0170	Collateralised securities	-
R0180	Collective Investments Undertakings	33,326
R0190	Derivatives	-
R0200	Deposits other than cash equivalents	5,922
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:	2
R0280	Non-life and health similar to non-life	2
R0290	Non-life excluding health	-
R0300	Health similar to non-life	2
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	1,334
R0370	Reinsurance receivables	85
R0380	Receivables (trade, not insurance)	399
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	2,986
R0420	Any other assets, not elsewhere shown	-
R0500	Total assets	77,990

S.02.01.02 Balance Sheet (continued)

	Liabilities	Solvency II value £'000
		C0010
R0510	Technical provisions - non-life	3,072
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)	3,072
R0570	TP calculated as a whole	-
R0580	Best Estimate	2,412
R0590	Risk margin	660
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	1,427
R0790	Derivatives	-
R0800	Debts owed to credit institutions	-
R0810	Financial liabilities other than debts owed to credit institutions	-
R0820	Insurance & intermediaries payables	400
R0830	Reinsurance payables	91
R0840	Payables (trade, not insurance)	4,088
R0850	Subordinated liabilities	-
R0860	Subordinated liabilities not in BOF	-
R0870	Subordinated liabilities in BOF	-
R0880	Any other liabilities, not elsewhere shown	-
R0900	Total liabilities	9,078

R1000	Excess of assets over liabilities	68,912

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) Medical expense insurance £'000	Total £'000
		C0010	C0200
	Premiums written		
R0110	Gross - Direct Business	59,494	59,494
R0120	Gross - Proportional reinsurance accepted	-	-
R0130	Gross - Non-proportional reinsurance accepted		-
R0140	Reinsurers' share	1,170	1,170
R0200	Net	58,324	58,324
	Premiums earned		
R0210	Gross - Direct Business	59,501	59,501
R0220	Gross - Proportional reinsurance accepted	-	-
R0230	Gross - Non-proportional reinsurance accepted		-
R0240	Reinsurers' share	1,171	1,171
R0300	Net	58,330	58,330
	Claims incurred		
R0310	Gross - Direct Business	44,654	44,654
R0320	Gross - Proportional reinsurance accepted	-	-
R0330	Gross - Non-proportional reinsurance accepted		-
R0340	Reinsurers' share	802	802
R0400	Net	43,852	43,852
	Changes in other technical provisions		
R0410	Gross - Direct Business	163	163
R0420	Gross - Proportional reinsurance accepted	-	-
R0430	Gross - Non-proportional reinsurance accepted		-
R0440	Reinsurers' share	-	-
R0500	Net	163	163
R0550	**Expenses incurred**	16,828	16,828
R1200	Other expenses		-
R1300	Total expenses		16,828

S.17.01.02 Non-life technical provisions

		Direct business and accepted proportional reinsurance Medical expense insurance £'000	Total Non-Life obligation £'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	(413)	(413)
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(37)	(37)
R0150	**Net Best Estimate of Premium Provisions**	(377)	(377)
	Claims provisions		
R0160	Gross	2,826	2,826
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	40	40
R0250	**Net Best Estimate of Claims Provisions**	2,786	2,786
R0260	**Total best estimate - gross**	2,411	2,411
R0270	**Total best estimate - net**	2,409	2,409
R0280	**Risk margin**	660	660
	Amount of the transitional on Technical Provisions		
R0290	Technical Provisions calculated as a whole	-	-
R0300	Best estimate	-	-
R0310	Risk margin	-	-
R0320	**Technical provisions - total**	3,072	3,072
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	3	2
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	3,069	3,069

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	-	-	-	-	-	-	-	2				2	2
R0190	N-6	-	-	-	-	-	-	2					2	2
R0200	N-5	-	-	-	-	-	-						-	-
R0210	N-4	-	-	-	-	15							15	15
R0220	N-3	-	2,168	-	52								52	2,220
R0230	N-2	38,195	2,462	71									71	40,728
R0240	N-1	38,581	2,757										2,757	41,338
R0250	N	41,819											41,819	41,819
R0260													44,718	126,124

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	2,594	-	-									-
R0240	N-1	2,732	-										-
R0250	N	2,826											2,826
R0260													2,826

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	68,912	68,912			
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**	68,912	68,912	-	-	-
	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	68,912	68,912	-	-	-
R0510	Total available own funds to meet the MCR	68,912	68,912	-	-	
R0540	Total eligible own funds to meet the SCR	68,912	68,912	-	-	-
R0550	Total eligible own funds to meet the MCR	68,912	68,912	-	-	
R0580	**SCR**	28,098				
R0600	**MCR**	7,025				
R0620	**Ratio of Eligible own funds to SCR**	245%				
R0640	**Ratio of Eligible own funds to MCR**	981%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	68,912
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**	68,912
	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	23,456		-
R0020	Counterparty default risk	560		
R0030	Life underwriting risk	-	None	-
R0040	Health underwriting risk	9,424	None	-
R0050	Non-life underwriting risk	-	None	-
R0060	Diversification	(5,889)		
R0070	Intangible asset risk	-		
R0100	**Basic Solvency Capital Requirement**	27,551		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,785
R0140	Loss-absorbing capacity of technical provisions	-
R0150	Loss-absorbing capacity of deferred taxes	(1,238)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-
R0200	**Solvency Capital Requirement excluding capital add-on**	28,098
R0210	Capital add-ons already set	-
R0220	**Solvency capital requirement**	28,098
	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	MCR_{NL} Result	2,855	C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		2,410	58,330
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	MCR_{L} 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	2,855
R0310	SCR	28,098
R0320	MCR cap	12,644
R0330	MCR floor	7,025
R0340	Combined MCR	7,025
R0350	Absolute floor of the MCR	2,222
R0400	**Minimum Capital Requirement**	7,025

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