Teachers Assurance Company Limited

Solvency and Financial Condition Report

For the year ended 31 December 2019

Statement of directors' responsibilities

Financial year ended 31 December 2019

We certify that:

a) The Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

b) We are satisfied that:

    i. throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and

    ii. it is reasonable to believe that, at the date of the publication of the Solvency and Financial Condition Report, the Company has continued so to comply, and will continue so to comply in future.

The Solvency and Financial Condition Report was approved by the Board of Directors on 14 May 2020 and signed on its behalf by:

…………………………………………………..
Mark Hartigan
Chief Executive Officer

14 May 2020

Teachers Assurance Company Limited
County Gates
Bournemouth
BH1 2NF

A. Business and Performance (TAC)

A.1 Business

a) Name and legal form of undertaking

Teachers Assurance Company Limited (TAC) is a UK-incorporated and domiciled company limited by shares.

Registered office:
County Gates
Bournemouth
BH1 2NF
Telephone: 01202 292333

b) Name and contact details of the supervisory authority responsible for financial supervision.

Firm's reference number: 202569

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) are responsible for the financial supervision of the Company.

For the contact details of the PRA and the FCA please see part b) in chapter A.1 of the LVFS Solo SFCR.

c) Name and contact details of the external auditor

The Company has taken the exemption provided by PS25/18 to not have an audit opinion on its SFCR.

d) Description of the holders of qualifying holdings in the undertaking

TAC is a wholly owned direct subsidiary of Liverpool Victoria Financial Services Limited (LVFS), formerly Liverpool Victoria Friendly Society Limited. As LVFS is a mutual organisation, there are no external qualifying holdings within the meaning of the Solvency II regulations.

e) Details of the undertakings within the group

For an explanation of the undertaking's position within the group please see part e) in chapter A.1 of the LVFS Solo SFCR.

f) Material lines of business and material geographic areas.

TAC underwrites non-life insurance contracts within the UK.

General insurance:
TAC's principal purpose was to conduct general insurance business (Fire and other damage to property insurance). At the start of July 2016 TAC ceased writing new business. TAC continues to administer any claims that occur on those policies underwritten prior to this date.

g) Significant business or other events occurring during the reporting period that have a material impact on the undertaking.

TAC's household contents and building insurance products provide insurance protection for a 12 month period so accordingly, there have been no active policies in-force from 1 July 2017.

Whilst there have been changes of Director during 2019, the governance of the business remained stable and the solvency position and overall strength of the business was consistent. The changes in Directors were as follows:

A M Parsons – Resigned 30 November 2019
R A Rowney – Resigned 31 December 2019
S Treloar - Appointed 14 February 2019, Resigned 31 December 2019

Whilst TAC ceased writing new business after the transfer to LVFS, the organisation made an underwriting profit in 2019 of £30k (2018: profit £9k). The organisation's invested assets are now in cash and cash equivalents. The Company has received £18k (2018: £29k) of investment income.

TAC used the Standard Formula to calculate its capital requirements throughout 2019, and this is expected to continue going forward.

LV= has regulatory approval for the submission of a Group ORSA report. This means that the outputs of the individual ORSAs conducted for each of the insurance entities, in addition to those of the LV= Group, must be documented within the Group ORSA Report. There were no specific recommendations in the ORSA relating to TAC.

A.2 Underwriting performance

All business is underwritten in the UK.

The following table shows the underwriting income and expenses.

Fire and other damage to property insurance	**2019**	2018
	£000	£000
Net earned premiums	**-**	-
Net claims credit/(incurred)	**32**	(3)
Expenses (incurred)/credit (excluding investment management expenses)	**(2)**	12
Net total	**30**	9

TAC stopped writing new business in June 2016. Claims performance has been in line with expectations as only old claims were being administered.

A.3 Investment performance

The following table summarises the income and expenses with respect to investment activities during the last reporting period:

	2019 £000	2018 £000
Dividend income	**-**	28
Interest income	**18**	1
Net realised/unrealised gains	**-**	-
Net total	**18**	29

TAC had cash balances of £5,533k at 31 December 2019 (2018: £5,149k)

TAC had investments of £nil at 31 December 2019 (2018: £267k) invested in money market collective investment undertakings.

A.4 Performance of other activities

Tax expense is the only other material expense for TAC:

	2019	2018
	£000	£000
Tax expense	**(9)**	(32)
Total	**(9)**	(32)

There are no other material income and expense items included for this organisation.

A.5 Any other information

There is no additional information to disclose for section A.

B. System of Governance (TAC)

The system of governance for TAC is aligned to the approach applied across the LV= Group. Therefore, please refer to Section B of the LVFS Solo SFCR.

The Directors of TAC during the year were as follows:

A M Parsons – Resigned 30 November 2019
R A Rowney – Resigned 31 December 2019
S Treloar - Appointed 14 February 2019, Resigned 31 December 2019

C. Risk Profile (TAC)

C.1 Overview

C.1.1 Overview of risk exposures

No new business has been written since June 2016. All policies are for 12 months so by July 2017 there were no more policies in force.

All risks are expected to decline in line with a fall in the investment portfolio as claims are settled and the book runs-off.

Post Diversification Risk Capital, for the year ended 31 December	**2019**	2018	**Change**
Counterparty default risk	99%	96%	+3%
Non-life underwriting risk	1%	3%	-2%
Operational risk	0%	1%	-1%
Total	**100%**	100%	

C.1.2 Measurement of risk exposures

A group wide approach is taken in measuring risk exposures. This is described within the LVFS Solo SFCR in section C.1.2.

C.1.3 Prudent person principle

A common investment framework is employed across the LVFS Group and its subsidiaries. This is set out within the LVFS Solo SFCR in section C.1.3.

C.1.4 Risk concentration

TAC is exposed to some concentration risk from the collective investment holding although this is with an approved financial institution.

C.2 Underwriting risk

C.2.1 Underwriting risk exposure

TAC is exposed to non-life reserve risk. This arises from the uncertainty of claims that are still to be settled. As the Company has not been writing new business since 2016 there remains no risk from premium uncertainty or from an unknown weather event.

C.2.2 Material changes over the reporting period

There were no material changes over the reporting period.

C.2.3 Risk mitigation techniques

TAC does not undertake any risk mitigation techniques due to the limited risk exposures within the Company.

C.3 Market risk

C.3.1 Market risk exposure

TAC is not exposed to market risk.

C.3.2 Material changes over the reporting period

There were no material changes over the reporting period.

C.3.3 Risk mitigation techniques

As TAC is invested in cash or cash equivalent OEICs no risk mitigation techniques are required.

C.4 Credit counterparty risk

Credit Counterparty risk is described further in section C.4 of the LVFS Solo SFCR.

All risks are expected to decline in line with a fall in the investment portfolio as claims are settled and the book runs-off.

C.5 Other material risks

Liquidity, operational and other risks are managed at an LVFS Group level and are described further in sections C.5, C.6 and C.7 of the LVFS Solo SFCR.

C.6 Sensitivities

No stress and scenario testing is conducted for TAC because of the limited risk exposures within the Company.

D. Valuation for Solvency Purposes (TAC)

D.1 Assets

For Solvency II valuation purposes, assets and other liabilities are valued consistently with IFRS provided that IFRS valuation methods are consistent with Article 75 of Directive 2009/138. Assets and liabilities represent the fair value amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

Reconciliation between IFRS and Solvency II valuation		**2019**			
		IFRS	**Presentational adjustment**	**Solvency II valuation adjustment**	**Solvency II**
	Note	**£000**	**£000**	**£000**	**£000**
Investments					
Cash and cash equivalents	#	**5,533**	-	-	**5,533**
Any other assets, not elsewhere shown	#	**1**	-	-	**1**
Total Assets		**5,534**	**-**	**-**	**5,534**

#- Disclosure note not provided as Solvency II value equal to IFRS or the amounts are immaterial.

1. Investments

All the assets of TAC are in highly liquid OEICs (which are invested in cash and cash equivalents) to match projected underwriting future liabilities.

D.2 Technical Provisions

The table below summarises the technical provision recorded as at year end 2019:

	2019		
	IFRS	**Adjustments**	**Solvency II**
	£000	**£000**	**£000**
TP; Non-Life (excluding health)			
- TP calculated as a whole	12	(12)	-
- Best Estimate	-	12	12
- Risk Margin	-	44	44
Total technical provisions	**12**	**44**	**56**

Overview

Due to materiality, the best estimate liability (BEL) is derived from the underlying IFRS Reserves for Solvency II valuation purposes. It comprises a calculation of a claims provision which derives the BEL. The Risk Margin (RM) represents the cost of holding the SCR over the future assumed lifetime of the insurance portfolio, assuming a percentage annual cost.

Best Estimate Liability (BEL)

The BEL for TAC consists only of a Claims Provision as the Company has no unearned premium.

The claims provision covers expired risk, i.e. the cashflows in relation to claims incurred prior to the calculation date. Given TAC is now in run-off and the duration of the outstanding liabilities is low, the Claims Provision has been set equal to the IFRS Claims Reserve. Typically, the Claims Provision would allow for the impact of discounting (reducing the provision) and an allowance for Events Not In Data (increasing the provision). As these offset each other directionally and are both likely to be immaterial, these have not been included.

Risk Margin

The calculation of the Risk Margin (RM) is part of the overall process of producing the Solvency II Balance Sheet for TAC. The RM represents the cost of holding the SCR over the future assumed lifetime of the insurance portfolio, assuming a percentage annual cost. However, rather than being based on the full SCR the RM for each entity is calculated on the following premises:

- The risk margin is the present value of the cost of capital that a third party insurer would need to hold assuming it took on the insurance liabilities.
- This third party has no other insurance liabilities and is closed to new business.
- The risk capital considers only market risk (excluding hedgeable market risk), GI underwriting risk, counterparty risk and operational risk.
- There is no allowance for deferred tax loss absorbency.

The risk margin would typically be calculated using a cost of capital (CoC) approach i.e.:

$$Risk\ Margin = CoC * \sum_{t>=0} SCR_t / (1 + r_{t+1})^{\wedge (t+1)}$$

Where:

- The sum covers all future time periods ‘t’ including time zero.
- ‘CoC’ is the annual cost of capital which, has been specified as 6%.
- ‘SCRt’ is the SCR at time ‘t’ in respect of the risks included with the RM calculation.
- The projection of the SCR will be carried out for the assumed run-off term of the in-force business, i.e. no new business is assumed.
- ‘rt+1’ is the basic risk-free rate for maturity ‘t’ allowing for the term structure of interest rates with no allowance for illiquidity premium.

However, due to materiality and the fact that TAC is now in run-off, the calculation has been simplified by assuming the opening Solvency Capital Requirement will be held at only the beginning and end of the year following the valuation date, with no discounting being applied. The calculation above therefore simplifies to:

$$Risk\ Margin = 2 * CoC * SCR_0$$

Recoverables from reinsurance contracts and special purpose vehicles

For Solvency II valuation purposes, reinsurance recoverables are set equal to the IFRS equivalent amount.

D.3 Other liabilities

There is a current tax liability of £9k (2018: £32k) and trade and other payables of £7k (2018: £nil) in other liabilities within TAC.

D.4 Alternative methods for valuation

There are no material assets that have been valued using alternative valuation methods in accordance with Article 263 of the Delegated Acts.

The following material liabilities have been valued using alternative valuation methods in accordance with Article 263 of the Delegated Acts:

- Best Estimate Liability and Risk Margin £56k; this has been valued under Solvency II methodologies and further information can be found earlier in this report.

D.5 Any other information

There is no additional information to disclose for section D.

E. Capital Management (TAC)

E.1 Own funds

The key capital management policies and objectives for TAC are set at Group level and are consistent across all entities. The approach to measuring and monitoring capital for TAC is defined and actioned at Group level. In addition the Group backs all the underlying entities and has in place mechanisms to support these capital positions if necessary.

For further information on these please see section E.1a and E.1b of the LVFS Solo SFCR.

The following table details the structure, amount and quality of basic own funds.

	Tier 1 £000	**Tier 2 £000**	**Tier 3 £000**	**Total £000**
Ordinary share capital	-	-	-	-
Reconciliation reserve	5,462	-	-	5,462
Total Basic Own Funds	**5,462**	**-**	**-**	**5,462**
Total available Own Funds to meet the SCR	**5,462**	**-**	**-**	**5,462**
Total available Own Funds to meet the MCR	**5,462**	**-**		**5,462**

The following tables detail the eligibility of own funds to meet the SCR and MCR.

Total available Own Funds to meet the SCR	5,462	-	-	5,462
Total eligible Own Funds to meet the SCR	**5,462**	**-**	**-**	**5,462**

Total available Own Funds to meet the MCR	5,462	-		5,462
Total eligible Own Funds to meet the MCR	**5,462**	**-**		**5,462**

Analysis of significant changes in own funds during the reporting period

	TAC		
	1 January 2019 £000	Movement £000	**31 December 2019 £000**
Eligible own funds			
Tier 1 capital	5,424	38	**5,462**
Total capital	5,424	38	**5,462**
Made up of:			
Equity shares	-	-	**-**
Reconciliation reserve / surplus	5,424	38	**5,462**
Total capital	5,424	38	**5,462**
Total eligible own funds to meet SCR	**5,424**	**38**	5,462

- Tier 1 capital includes movements in excess of assets over liabilities.

Ancillary own funds

At 31 December 2019 there were no ancillary own funds.

Deductions from own funds

At 31 December 2019 there were no deductions from own funds

Explanation of the key elements of the reconciliation reserve

Reconciliation reserve	**£000**
Retained earnings on a Solvency II basis	5,462
Total	**5,462**

TAC did not apply any loss absorbency mechanisms as at the end of 2019.

Material differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for Solvency II purposes

The following table provides a reconciliation of equity under IFRS to Solvency II excess of assets over liabilities.

	£000
Analysis of Equity - IFRS	
Ordinary shares, allotted and fully paid	-
Retained earnings	5,506
Total Equity - IFRS	**5,506**
Solvency II Adjustments (excluding reclassifications)	
Technical provisions	
- Increase in valuation of technical provisions (Section D.2)	(44)
Total Equity - Solvency II basis	**5,462**
Total own funds - Solvency II basis	**5,462**

Excess of Assets over Liabilities - Solvency II basis	
Total Assets	5,534
Total Technical Provisions	(56)
Total Other Liabilities	(16)
Excess of Assets over Liabilities - Solvency II basis	**5,462**

Differences in the asset and liability valuation methodology used for Solvency II purposes and that used under IFRS are set out in Section D.

Own fund item that is subject to the transitional arrangements

TAC has no own funds subject to transitional measures.

E.2 SCR and MCR

E.2.1 SCR and MCR

The following table shows the amount of the SCR and MCR for TAC.

£000	**2019**	2018
SCR	**366**	361
MCR	**2,153**	2,222

Following the purchase of TAC in June 2016 and the renewal of all existing business into LVIC, TAC is now in run-off. The SCR has reduced due to the run-off of in-force business.

The calculation of the MCR is laid out in the S.28.01.01 QRT annexed to this report. The MCR is determined using a calculation, as specified in the Solvency II regulations, involving the technical provision, capital at risk and SCR, subject to a floor specified in Euros and converted to pounds sterling. The MCR floor of €2.5m applied throughout the reporting period and as such the MCR only reduced over the reporting period due to a change in the Euro/Pound exchange rate.

E.2.2 SCR split by risk

The following table summarises the risk modules which contribute to the Solvency Capital Requirement applicable under Standard Formula as at 31 December 2019:

SCR Component	**£000**
Counterparty default risk	364
Non-life underwriting risk	2
Diversification	(1)
Basic solvency capital requirement	**365**
Operational risk	1
Solvency capital requirement	**366**

No material simplifications have been adopted in the calculation of the SCR under Standard Formula.

E.2.3 Basis of calculation

TAC uses a Standard Formula basis to calculate the SCR. The approach to calculating the SCR and MCR is in accordance with the Solvency II Directive. TAC is not using any material simplifications or undertaking specific parameters in the calculation of the SCR and does not have any regulatory capital add-ons.

E.3 Use of a duration-based equity risk sub-module

TAC has not applied the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between Standard Formula and any Internal Model used

This does not apply as TAC does not use an Internal Model to calculate its SCR.

E.5 Non-compliance with the MCR and the SCR

TAC has been compliant with the MCR and SCR throughout the reporting period.

E.6 Any other material information

No additional information is disclosed because all relevant information has been provided above.