Financial & Legal Insurance Company Limited

Solvency and Financial Condition Report (SFCR)

For the year ending 31st December 2023

Regulatory Firm Reference Number 202915

Company Number 03034220

Executive Summary

This is the latest Solvency Financial Condition Report (SFCR) for Financial and Legal Insurance Company Limited (the Company) based on the financial position as of 31st December 2023.

This report covers the Business and Performance of the Company, its System of Governance, Risk Management, Valuation for Solvency Purposes, and Capital Management. The ultimate administrative body that has the responsibility for all of these matters is the Company's board of directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

The Company traditionally operated as a specialist legal expenses insurer primarily providing Before the Event ("BTE") and After The Event ("ATE") legal expenses insurance policies. However, the Company made a strategic decision to diversify into general insurance products in 2021 and has written £2.2m of new business during 2023.

The Company still has a significant volume of ATE business, with a more diverse portfolio including non-injury ATE products developed and offered via partners who have a longstanding relationship with the Company and have the relevant expertise.

The Company also continues to increase the volume of BTE insurance it sells through regulated insurance brokers alongside a range of general insurance products.

The Company has the following regulatory permissions which allow it to write a range of legal expenses and general ancillary products:

- Class 1 Accident
- Class 3 Land Vehicles
- Class 16 Miscellaneous Financial Loss
- Class 17 Legal Expenses
- Class 18 Assistance.

ATE business is sold principally through solicitors. ATE policies insurance generally have a life expectancy of between six months and three years but can be longer in exceptional or complex cases. BTE legal expenses policies are typically sold by insurance brokers alongside a primary policy, such as motor, home, or landlords. In recent years the Company extended to write more general insurance policies, which are typically distributed by insurance brokers or MGAs.

The Company wrote circa 180,000 ATE policies in 2023 which is higher than 2022 (c125,000) due to a significant number of financial mis-selling policies, primarily Plevin (PPI) and PCP products. The Company also insures in the region of 1.7m BTE and General Insurance policies.

Financial Overview

In 2023, the Company experienced an anticipated increase in profitability due to strong performance from its ATE book and increased Non-ATE business. Underwriting profit increased from £0.8m to £1.3m, against a budget of £0.8m. Profitability is budgeted to fall slightly in 2024 before returning to growth thereafter with significant growth in new Non-ATE business replacing the core legacy ATE Road Traffic Accident business impacted by the Civil Liability reforms.

Total GWP (net of reinsurance) increased from £7.6m to £13.2m with both ATE and Non-ATE experiencing sizeable increases. It should be noted that the ATE GWP is stated net of expected cancellations where the Company has adopted a conservative approach on more recent product lines (most notably financial mis-selling) such that if successful, the impact on GWP and corresponding underwriting profit could be significant.

Net assets increased by £1.2m year on year with a notable improvement in cash at bank balances which rose to £22.0m (from £9.2m). Interest income has increased significantly as a result, rising from £0.1m to £0.9m.

Systems of Governance

The system of governance revolves around the Board, the Underwriting Committee, the Audit Committee and the various sub committees, with some key functions outsourced to external service providers. The mainstay of the system of governance is the risk management system, which is designed to ensure that all material risks are identified, and that policies and procedures are in place to assess the potential risks, consider their potential impact and to report upon them so they can be effectively managed or mitigated. The risk management system comprises:

- Risk Register
- Formal Risk Policies and Procedures
- Risk reporting
- Own Risk and Solvency Assessment (ORSA)

During 2023 the Head of Risk and Compliance was promoted to the Chief Risk Officer (FCA approval pending), with additional recruitment into the Risk and Compliance Team to ensure sufficient resource is available.

Solvency Capital Ratio

The Company uses an external consultant to review the methodology and assumptions used to derive the Company's solvency capital ratio ("SCR"), which remains the Company's most important key performance indicator.

This SCR has increased slightly from 163% in 2022 to 165% in 2023 with further increases forecast in the coming years.

A: Business and Performance

A1. Business and external environment

The Company is a United Kingdom based insurer authorised and regulated by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA). Contact details for the PRA and FCA can be found at:

- www. Bankofengland.co.uk/pra
- www.fca.org.uk

Financial and Legal Insurance registered and operating office:

Financial and Legal Insurance Company Limited
No 1. Lakeside
Cheadle Royal Business Park
Cheadle
SK8 3GW

Auditors name and address:

PKF Littlejohn LLP
3rd Floor
1 Park Row
Leeds
LS1 5HN

Shareholding structure

Nicholas Garner, who is the Chief Executive Officer, is the majority shareholder and owns 94.44% of the Company. His spouse, Serena Garner holds the remaining 5.56%.

Following an issue of shares in 2023, Karen Beales and Tony Pope own 1 ordinary share each, a negligible holding out of the 1,332,002 shares in issue.

External Environment

Civil Liability Act

The Government introduced the Civil Liability Act (CLA) implemented from 31st May 2021. The main consequence of this was a significant reduction in the volumes of new Road Traffic Accident ("RTA") ATE policies being sold since pure whiplash claims and RTA claims more generally with damages value below £5,000 ceased to be as attractive for firms of solicitors to run.

ATE RTA policies historically were the single largest product so it is pleasing that the company has returned to growth in a relatively short timescale.

UK Economic Climate

The UK population is experiencing a challenging financial period, following the Covid pandemic, the invasion of Ukraine and rising prices. All external factors place significant stress on the insurance market, with inflation increasing, resulting in increasing claims costs, yet a strong pressure to not increase insurance premiums. The population has an increasing number of vulnerable individuals all of which make the insurance market challenging and has to be considered as part of the Company's strategic goals.

Regulatory development

In the last 3-5 years the Financial Conduct Authority has significantly "raised the bar" in terms of insurance consumer protection (and the clear demonstration of this). The result for the Company and all others involved in the retail insurance market has been a significant increase in the focus, time and cost devoted to ensuring full compliance with all requirements to ensure we can clearly demonstrate how we meet all our duties to the customer and deliver value in the products we manufacture and distribute.

A2. Performance from underwriting activities

The Company historically has distributed mainly ATE Insurance products, whilst the policy volumes are less than BTE, the premium per policy is greater hence the majority of the income and in turn profit has resulted from the ATE product range. The general insurance ancillary products are still at an early stage of development therefore the policy volumes remain relatively small albeit growing quickly.

The Underwriting performance of the legal expenses' product lines are considered and reported upon separately as the premiums are earned differently and the profile of claims is also significantly diverse, with earnings patterns developed for the new general insurance products depending upon the individual product line.

It can take many years for ATE Insurance claims to settle, and we experience cancellations or abandonment of a claim resulting in policy cancellation in a large number of cases.

All the products insured relate to risks insured located in the United Kingdom.

All underwriting is carried out in the Company's office. In the year to 31st December 2023, the Company made a profit before tax of £2.2m (2022 - £0.9m), reflecting increases in both underwriting profit and interest income.

The summary technical account for the year end 31st December 2023 is presented below:

Technical acccount £'000	**2023 £'000**	**2022 £'000**
Written Premiums	13,216	7,567
Provision for unearned premium	(2,863)	(515)
Earned premium	10,353	7,052
Claims Paid	(4,955)	(3,875)
Provision for claims	(569)	337
Commissions	(856)	(480)
Operating expenses	(2,620)	(2,214)
Balance on technical account	**1,353**	**818**

During 2023 the Company reconsidered its reinsurance needs and has a small number of reinsurance arrangements in place which provides protection to the business as well as capital relief.

A3. Performance from investment activities

Cash Deposits:

The Company operates a risk averse investment policy with all liquid funds held in cash with Barclays Bank. The total investment income generated in 2023 was £857k (2022 - £128k), primarily reflecting the significant increase in cash reserves.

Related Party Loans:
The Company has a secured loan arrangement with two related parties (MSL Vehicle Solutions Limited and MSL Legal Expenses Limited) attracting an interest rate of 9%.

The combined outstanding balance from these two loans at 31 December 2023 was £5.8m (2022 - £2.3m) with interest of £206k (2022 - £67k) earned in the year.

A4. Operating/other expenses

A breakdown of the operating expenses is listed below:

Operating expenses	2023 £'000	2022 £'000
Insurance commissions	(856)	(480)
Colleague costs	(2,053)	(1,599)
Other expenses	(567)	(616)
Total operating expenses	**(3,476)**	**(2,695)**

Commissions (not deducted at source) relate entirely to ATE business.

Colleague numbers have increased to service growth plans and to respond to increasing regulatory reporting requirements.

Other operating expenses have remained fairly flat.

A5. Any other disclosures

There are no other disclosures.

B: System of Governance

B1. General governance arrangements

There have been no changes to the board structure during the 2023 year, with the board structure as follows, however, changes are being made during 2024:

N D Garner - Chief Executive Officer
K A Beales – Managing Director
A J Pope – Chief Financial Officer
J Daniels – Commercial Director
C J Gibson – Chair of the Board and the Audit Committee and Non-Executive Director
A S Hughes –Non-Executive Director
D Ross – Non-Executive Director and Consumer Duty Champion

Senior Insurance Management Functions are allocated as follows:

Function	Person	SMF / CF
Chief Executive	Nick Garner	SMF1
Chief Finance	Tony Pope	SMF2
Chief Risk	Tony Pope*	SMF4
Chief Risk Officer	Elaine Parkes*	SMF4 & SMF16
Chair of the Governing Body	Colin Gibson	SMF9
Chair of Audit Committee	Colin Gibson	SMF11
Compliance Oversight	Karen Beales*	SMF16
Money Laundering Reporting Officer (MLRO)	Tony Pope	SMF17
Chief Underwriting Officer Function	Karen Beales	SMF23
Responsible for Insurance Distribution	Karen Beales	N/A
Director (Appointed Representative)	Nick Garner	CF1
Director	Jonathan Daniels	SMF1
Non-Executive Director	Anthony Hughes	N/A
Non-Executive Director	David Ross	N/A

*Subject to regulatory approval.

The Board is responsible for the oversight of the business and sets its strategy and risk appetite. The Company Secretary is Serena Garner. David Ross was appointed as Consumer Duty Champion in 2022. Elaine Parkes has been promoted from Head of Risk and Compliance to the role of Chief Risk Officer and is currently awaiting approval from the FCA, with the responsibilities for risk and compliance including SMF4 and SMF16 transferring from Tony Pope and Karen Beales accordingly.

The Board composition is reviewed regularly and is of sufficient size and expertise to oversee the operations of the Company. The Board has been formed to ensure it can:

- Adequately discharge its responsibilities and duties
- Considers all risks, has a full and detailed understanding of the challenges facing the Company and has the experience to deal with any issues.
- Consider consumer outcomes ensuring access to necessary details to ensure clarity of decisions.

The Board of Directors comprises a mix of individuals with the following skills:

- Business Strategy – a detailed understanding of the business strategy with the skills and knowledge to challenge accordingly to ensure a robust business strategy.
- Governance – including risk management and control, understanding the risks facing the Company and that it has the ability to manage and mitigate them. To also consider the effectiveness of the oversight and controls
- Financial – to interpret the financial information, identifying key issues and put into place key controls.
- Regulatory frameworks – understanding of the regulatory framework within which the Company operates, with a focus on customer outcomes.

There are also two other senior managers (Head of Underwriting and Head of Claims) plus c25 other colleagues. As part of the overall governance strategy, each senior manager has a clearly defined role with ownership and responsibilities to act as the first line of risk defence (referred to below). The board continually review the resources to ensure there are sufficient resources and/or development in infrastructure to support such growth.

The Board is also responsible for the remuneration and audit committees, of which all members are NEDs. In addition, the Company has a monthly Underwriting Committee meeting which reports to the board and a risk and compliance meeting, the output of which form an integral part of the board meetings.

The Board is responsible for the remuneration terms under the control of the chair of the Board who has ultimate responsibility. The Remuneration Policy has been revised during the last 12 months. It details how SM and colleagues are compensated and is structured around prioritising the needs and satisfaction of customers. This means that the policy is designed to reward behaviours and actions that enhance the customer experience and fulfil the four outcomes outlined in Consumer Duty regulations. These outcomes typically focus on ensuring fair treatment, appropriate products and services, effective communication, and overall customer satisfaction. So, the remuneration policy incentivises employees to prioritise customer needs and uphold their rights and interests in line with regulatory standards.

The Board

- oversee the design of the remuneration architecture, the implementation of the Remuneration Rules and the respective monitoring process.
- review the Remuneration Rules regularly, at least once a year, and amend them, as necessary.
- is responsible for reviewing and monitoring implementation of this policy.

The Board including the Directors meet on at least an annual basis to review the Remuneration Policy and its implementation.

Link Between Pay and Performance

The Company operate a balanced and effectively managed remuneration system that provides for competitive total remuneration opportunities that are designed to attract, retain, motivate and reward the colleagues to deliver high performance, whilst always supporting the aims of Regulatory requirements.

- The link between pay and performance is supported by fixed pay (i.e. base salary and benefits) and performance related pay (bonus schemes as applicable).

- The remuneration system is an important element of the broader risk management framework with a clear focus of the targets and measures to support customer centric behaviours. It is designed to discourage inappropriate risk taking through effective governance and a clearly defined performance management process which supports the Company's overall strategy, values, and long-term interests.

- Performance related pay, based upon a balanced set of SMART objectives which are designed to promote sound risk management and does so by ensuring an appropriate balance between fixed and performance-based elements and ensuring sufficiently competitive fixed pay to allow non-payment of the performance-based component.

- The Company does not pay bonuses based upon policy sales or volumes.

- For the avoidance of doubt any instance of failure to comply with relevant legislation, regulations or internal policy will impact upon the level of any element of variable remuneration which might otherwise have been awarded. Good customer outcomes have been strengthened in the setting of objectives for each individual throughout the Company and are monitored frequently, with clear reportable outcomes.

The board carries out its other duties by:

- Attending monthly board meetings to discuss issues arising from the management meetings in addition to addressing any issues requiring board approval or consent as well as addressing emerging legal, regulatory, market and performance risks and challenges.

- Providing challenge and input to relevant meetings.

The Company also has in place the three lines of defence risk model:

a. First Line of defence
    - Provided by front line managers, colleague, and operational management. The systems, internal controls, the control environment, and culture developed and implemented by the business is crucial in anticipating and managing operational risk.
    - The senior managers will have responsibility and ownership of the first line of defence and will be accountable for any failings.
b. Second Line of defence
    - This is Risk, Compliance, HR and IT
    - These functions provide an oversight and the tools, systems, and advice necessary to support the first line of defence in identifying and monitoring risks.
    - Risk and Compliance report directly to the board with separate independent oversight through regular meetings with the Chair of the board who is a non-executive director. The Risk and Compliance function has been expanded over the last 18 months and now comprises a Chief Risk Officer, a Head of Risk and also a team of experienced individuals who work closely with the business.
c. Third Line of defence
    - Provided by internal audit. This provides a level of independent assurance that the risk management and internal control framework is working as desired. The Company use various specialist external consultants to undertake its independent internal audit dependent on the area of focus each year. The Board have appointed two independent external consultants to offer support and advice in regard to Compliance and Regulatory matters. The appointments were made following a robust review and onboarding process, focusing on the specific skills of each consultancy company to match our needs.
    - Internal audit is a direct report to the Chair of the Board and the Chair also agrees the nature and extent of the internal audit.

To additionally manage any conflicts of interest the finance function within the Company reports directly to the CEO and other functions report directly to the Managing Director who is a direct report to the CEO.

B2. Fit and Proper Requirements

As an insurer the Company must assess that certain colleagues within the firm are fit and proper to do their job. This includes the following colleagues:

- Senior Managers
- Certification colleagues
- Non-Executive Directors

We assess the above colleagues on an ongoing basis, and at least once a year. The assessment considers relevant FCA rules around the qualifications, training, competence, and personal characteristics required for the role (where applicable).

Fitness

All relevant colleagues must be fit for their role and responsibilities and hold the qualifications, knowledge, and experience relevant to the role to ensure that it is performed in a professional manner with the appropriate degree of management and professional competence.

Appointment of all individuals must comply with the rules as set out in the MFSA rules and guidelines.

Propriety

When carrying out the assessment we consider the following for a colleague:

- Honesty, integrity, and reputation
- Competence and capability, including whether the colleague satisfies any relevant FCA training and competence requirements.
- Financial soundness

In addition to the assessments, we also collect other evidence:

(1) We carry out Disclosure and Barring Service (DBS) checks regularly
(2) Request regulatory references for new colleagues, where the colleague has worked within a PRA / FCA regulated firm.

Obtaining the above helps us to make better-informed decisions about new or existing colleagues.

All senior managers have a Statement of Responsibility (SOR), which sets out their responsibilities and what is expected of them.

In addition to the above, we also request certain other colleagues within the firm to complete a fitness and propriety declaration each year. The declaration is signed by a colleague confirming whether they remain fit and proper to undertake their duties. Permission is obtained to carry out DBS checks on these colleagues, however this is only done where necessary.

The colleagues and their roles subject to the fit and proper requirements are:

C Gibson	Chair of the Governing Body, Chair of the Audit Committee
N Garner	Chief Executive Officer
A Pope	Chief Financial Officer
K Beales	Managing Director
J Daniels	Commercial Director
D Ross	Non-Executive Director
A Hughes	Non-Executive Director
G Davies	Head of Underwriting
S Whitaker	Delegated Authority Manager
E Parkes	Head of Risk and Compliance – awaiting approval for Chief Risk Officer
R Mycroft	Head of Claims
D Shingleton	Compliance Officer
All Claims colleagues	
All Finance colleagues	

B3. Risk Management System

Overview of risk system

The Company is a classified as a small insurer and as such the board has the responsibility to act as the Administration, Management and Supervisory Body to meet the requirements of the Solvency II rules. The board also is responsible for the audit committee and as such the relevant interactions between the board and committees referred to are managed by the board.

The Company's risk system is embedded in all the procedures and processes that the Company follow. These procedures and processes are supported by its risk management policies which include:

Policy list:

1. Anti-Bribery Policies, Gifts & Inducements Policy
2. Anti-Fraud
3. Anti-Money Laundering Policy
4. Audit Risk
5. Binder Termination Policy
6. Business Continuity Plan
7. Claims Policy F&L
8. Communications Policy
9. Complaints and Foreseeable Harm F&L
10. Conduct Risk Policy
11. Conflicts of Interest
12. Consumer Duty
13. Corporate Governance Policy
14. D&I Policy
15. Data Protection
16. Document, record and data retention Policy
17. ESG Policy
18. Expenses
19. Financial Crime

20. Financial Promotions Policy
21. Internal Controls Policy
22. Investment, Credit & Liquidity Risk & Asset Liability
23. IT Outsourcing Policy
24. IT Security
25. Onboarding Policy (Due Diligence) F&L
26. Ongoing Fitness & Propriety Policy
27. Operational Resilience Policy
28. Outsourcing Policy
29. Oversight of TOBAs
30. Principal/AR Oversight & Monitoring Policies (incl. AR onboarding and offboarding)
31. Product Oversight & Governance
32. Product Pricing Policy
33. Recruitment
34. Remuneration
35. Reputational Risk Policy
36. Reserving
37. Risk Breach and Risk Failure Policy
38. Risk Register Policy
39. SM&CR Policy
40. Social Media
41. Tax Evasion Policy
42. Training and Competence
43. Treating Customers Fairly (TCF)
44. Vulnerable Customers Policy
45. Whistleblowing Policy

These policies are reviewed at least annually but also as required in the event of any market changes for example. A number of additional policies have been added following a review of all policies by our Head of Risk and Compliance (now acting CRO).

In addition, there is a monthly requirement for all risk breaches and failures to be reported on an appropriate form.

Product Governance Process has been assessed and improved to ensure the products are aligned with the four key outcomes of Consumer Duty: This emphasises the importance of ensuring fair treatment, appropriate product design, effective communication, and overall customer satisfaction in all our product development processes.

To strengthen our alignment with Consumer Duty principles, we have:

1. Enhanced Product Review Process: We agreed to implement a more rigorous product review process that includes specific criteria for assessing the impact on consumer outcomes. This will help us identify any potential gaps and ensure that our products meet regulatory standards.

2. Training and Awareness: Recognising the importance of colleague awareness and understanding of Consumer Duty regulations, we conducted training sessions to educate the team on their responsibilities and the implications for our products and services.

3. Continuous Monitoring and Evaluation: Ongoing monitoring and evaluation of our products to ensure that they continue to meet Consumer Duty requirements. This includes regularly reviewing customer feedback, conducting product reviews, and making any necessary adjustments to improve consumer outcomes.

4. Transparent Communication: We acknowledged the importance of transparent communication with our partners and customers regarding product features, terms, and conditions. Clear and understandable communication is essential to ensuring that customers are fully informed and can make informed decisions about our products.

We are committed to aligning our product governance processes with Consumer Duty regulations to further enhance customer trust and satisfaction.

Overview of risk appetite & Underwriting Committee

The risk appetite of the business is reviewed regularly and is the cornerstone of the risks we will and will not accept. All new business or enhancements to existing products must meet the criteria in the Underwriting manual and as detailed in the risk appetite with approval processes to ensure we meet our criteria.

Any opportunity outside the risk appetite must receive board approval and be submitted with a business and financial case as to why we should accept it.

The Company operates a Product Oversight Committee (POC) which reviews all new products / schemes and changes to any existing products. It considers the product value, customer outcomes and ensuring the target market is considered and understood before progressing to commercial considerations. The Product Assessment documentation has recently been updated to ensure a more robust approach to product oversight from the initial process introduced. The revised process has been finalised with the assistance of an outsourced Compliance Consultancy to ensure a robust process.

If the POC approves a product it may require referral to the Underwriting Committee which considers new products, individual business opportunities, and general account performance. The Committee will consider, challenge and may approve the proposition.

However, where the product is a new product not previously underwritten, the Underwriting Committee is required to make a recommendation to the Board who may also challenge and ultimately has the responsibility for approval or rejection. This process ensures all management and board colleagues within the business are also fully aware of all new products and opportunities.

Summary of how emerging risks are managed – risk register, risk scoring and new and emerging risks.

As part of the overall risk governance and appetite the Company:

a. Monitor emerging risks by perusing the insurance and trade press, ICO, PRA, ABI, FCA websites and consultations and MOJ statements as well as statements from the Law Society, APIL, FOIL and MASS. In addition, any intelligence from business partners and competitors is also carefully monitored and further enquiries made where appropriate. Where an emerging risk is identified it is evaluated and reported at the next monthly management and/or board meeting.
b. In addition, any issues with a particular business partner or lost case that may have wider ramifications is reported on and remedial action taken where appropriate.
c. All new products must be agreed by the board with a business case and confirmation that it meets risk appetite, treats customers fairly and, if necessary, the ORSA will be re-run with stress testing to ensure the efficacy of our capital position before launch.
d. Risk breaches and risk failures are reported monthly.
e. All complaints are monitored with root cause analysis and subsequent action.

f. Each month a statement is produced and circulated to all managers and key colleagues providing monthly updates from FCA, PRA, FOS, ICO and MOJ.

Risk register - Summary of legal and industry risks including new emerging and possible merging risks

The Company's risks are classified into:

a. Operational
b. Insurance
c. Financial (including Liquidity and Credit Risks and Capital Constraints)
d. Compliance and Legal
e. Strategic
f. Reputational

In assessing the risks under each classification, the Company reviews Impact, Likelihood and Mitigation to produce a score and a financial value to attach to each risk following an evaluation of these risks. The outcome of this financial assessment is then built into Financial and Legal Insurance Company's ORSA calculations.

Summary of documented process for analysing new, emerging, and possible future risks

The Company has processes in place to identify and analyse current and new / emerging risks.

In assessing the risks in each of the classifications the Company reviews impact, likelihood and mitigation using a scoring methodology to produce a RAG status. A financial value is placed upon each of these and built into the Company ORSA calculations.

B4. ORSA (Own Risk and Solvency Assessment)

Content of the ORSA

The ORSA includes the Company's own assessment of its required capital and references the Solvency capital requirement (SCR) and the Minimum Capital Requirement (MCR) as of 31st December 2023. The Company's capital strategy defines the amount of capital that must be held to cover the risk of losses occurring in the event that the Company goes into run off. Such losses are stressed to a level thus enabling the Company to arrive at its own perceived capital requirement in line with its risk appetite.

The SCR defines the amount of capital that the Company must hold to satisfy regulatory requirements. The MCR defines the amount of absolute minimum capital that the Company must hold to avoid any regulatory intervention.

Roles and Responsibilities for producing the ORSA.

The board is ultimately responsible for the production of the ORSA and for the efficacy of the content of the ORSA.

The Managing Director and the Chief Financial Officer roles are to ensure that the correct risk appetite and governance is in place in ensuring that all risks, future risks and relevant parameters and stress and scenario testing are included in the ORSA for presentation to the board.

The board will, in reviewing each area and the proposed parameters, focus on the following and will challenge the results where relevant and where prudent to do so.

a. The period affected.
b. Financials proposed.
c. Agree emerging and new risks as well as changes to existing risks.
d. Produce comment and feedback on proposed stress and scenario testing.
e. Discuss and challenge the stress and scenario analysis.

The Managing Director and the Chief Financial Officer will then undertake an appropriate review based on the challenge and feedback by the board and present their findings of this further review to the board in a revised ORSA.

Following further challenge and comment by the board, the Managing Director and the Chief Financial Officer will then obtain agreement for the final parameters to be used in producing the ORSA to the board.

The Managing Director and the Chief Financial Officer will then present the final ORSA reacting to any further challenges and a detailed sense check by the board.

Sign off of the ORSA by the board

Purpose of the ORSA

a. This document sets out the policy, processes, and procedures in developing the ORSA. It identifies the source documents which will be reviewed together with the management information, leading to the production of parameters which will then be used to produce the ORSA.

b. The document will also set out the key management information and assumptions in producing the ORSA and how often such management information is produced and reviewed.

c. The board act as the Administration, Management and Supervisory Body. These parameters will be the subject of challenge by the board and ultimate agreement for the subsequent production of the ORSA.

d. This document also provides for the board to review the ORSA before finalising and sets out the reporting timelines as well as the communication methodology to our colleagues.

e. The ORSA in its simplest form is a log of the risks facing a business over a longer time horizon than one year – with a financial value and a plan to ensure that we remain, from a worst-case scenario, solvent and to have, at all times, adequate capital to support the business.

Period of ORSA

The ORSA is designed to cover the medium and long terms risks for the current and the next five years but takes into account the business fluctuations that we expect to occur in relation to polices issued prior to the ORSA and those policies which will be settled and earned over the next seven to ten years.

Frequency of the ORSA

The ORSA will be produced:

a. Annually as agreed by the board which reflects the consistent and stable nature of the Company.

b. At any other time if requested by the board or the senior management team.

c. At any other time if there is any material change to the risks that we currently face or if there are any other emerging or new risks which may arise in the future. Such risks will include:

    - Court judgements.
    - Changes in costs rules.
    - Legal or legislative proposed and/or agreed changes – European or UK.
    - Regulatory or compliance changes.
    - Civil procedure rule changes.
    - Any other changes which may affect the business, and which may have a material effect on the ORSA.
    - Material changes to cancellation rates.
    - Material changes to claims experience – frequency and/or costs.

B5. Internal Control System

The governance map is shown below in section B11. This map sets out the compliance functions in relation to complaints, risk register and policies (referred to in this report), risk breaches and risk failures, controls on corporate hospitality as well as treating customers fairly and customer satisfaction surveys. The functions undertaken by compliance feed into the monthly management meetings.

The management meetings are attended by the Chief Executive Officer, Chief Financial Officer, Managing Director, Commercial Director, Head of Underwriting, Head of Claims and Head of Risk and Compliance (now acting CRO). The Managing Director has the responsibility for producing the management report which provides a general overview of activity within the month, performance towards strategic plans, key performance indicators and any relevant legal or regulatory changes or updates including emerging risks. The monthly financial accounts are also reviewed at these meetings as produced by the Chief Financial Officer with sales activity updated by the Commercial Director and regulatory information provided by the Head of Risk and Compliance (acting CRO)

Internal controls are embedded into processes which include the due diligence procedure for new business partners, conformity with the board agreed risk appetite and a robust process for new and existing business which ensures that at least two persons (one of which must be either the Managing Director or the Chief Financial Officer) formally sign off new business terms before any contractual arrangements are entered into through compliance vetting.

The process has been further enhanced with the creation of the Product Oversight Committee (POC), reporting to the Underwriting Committee. The POC is the body responsible for the product assessment and will ensure that products offer fair value to customers.

The Managing Director reports directly to the Chief Executive Officer and the Chief Financial Officer also independently reports directly to the Chief Executive Officer. This internal control is designed to ensure that there are no conflicts of interests in the production of financial accounts and business performance. Both the Managing Director and the Chief Executive Officer are directors who report to the board. A separate internal audit function is also in place to support the internal controls (see below).

B6. Internal Audit Function

The Company uses an independent compliance consultancy (specialising in insurance) and certain other external consultancies with specialist skills (as and when needed) to undertake a regular internal audit of systems and controls. The business also outsources elements of its partner audit process to three experienced auditors, with over 20 years' experience in the relevant product line. They conduct audits of partners, clients and claims handlers producing audit reports which are then reviewed at the management meeting, escalating any matters to the Board as required.

The internal audit report is always sent directly to the Chair of the Audit Committee to ensure no other influence on the content and findings in the internal audit.

B7. Actuarial function

Article 48 of the Solvency II directive details the requirement of the need for an actuarial function.
The Company do not consider that we need to appoint a full-time actuary for the following reasons:

- The directive makes it clear that the appointment of an actuary needs to be commensurate with the scale, nature and complexity of the business.
- A full-time actuary would be inappropriate for a small insurer – actuaries need to be in contact with each other and a single actuary operating a mono line insurer would not meet this requirement.
- During the previous period the Audit Committee recommended that the internal audit focus in relation to 2022 should include the involvement of an external actuarial firm to review the Company's approach to and specific calculations of the Solvency Capital Requirement ("SCR") ratio. Their review highlighted a number of misclassifications and other matters requiring adjustment and all material elements from their recommendations have been taken into account in relation to the 2023-year end SCR regulatory

reporting. Their further involvement in the 2023 year itself has been limited to certain specific elements of advice but a fuller review of the SCR calculations is planned again in 2024.

- The Company, with an independent qualified accountant as Chair, have a strong accountancy presence at board who understand the business and how it operates. In addition, the Company, in agreement with the PRA, in 2020, appointed another full-time qualified accountant as CFO to further strengthen its financial management and control capability.

- To summarise the Company, have both board accountants as well as access to actuarial functionality when required and consequently do not consider that, as a mono line insurer, the appointment of a full-time actuary is necessary. The Company also considers that not having a full-time actuary is entirely consistent with the Solvency II directive in relation to proportionality and is commensurate with its risks and appetite.

- The appointment of a full-time actuary is reviewed at least annually, and as new products are introduced to the portfolio, the matter will be considered further.

B8. Outsourcing

The Company has limited operational outsourcing arrangements in place except in relation to

a. Internal audits – see above.
b. IT.

Item b above is operated by another company under the same ownership as Financial and Legal Insurance. The Company experienced a system outage in late 2023 due to a cyber-attack at the outsourced IT company. There was no customer detriment and no access into the systems, hence no data breach. The Company was able to establish operational processes where business could continue as usual. However, when the system issues were resolved, there was an element of updating online systems to reflect activity undertaken whilst access was not available, but colleagues worked diligently to ensure this was completed promptly.

While the Board are satisfied that the incident demonstrated the Company's ability to cope very successfully with this temporary compromise in its system functionality in a manner which resulted no customer detriment, it recognises the need to learn appropriate lessons. A review has been carried out and actions are being implemented in 2024 to further strengthen operational resilience in this area.

In addition to the limited operational outsourcing the business operates a B2B model whereby it permits Solicitors, managing general agents and regulated insurance intermediaries to sell policies on its behalf. The Company delegates authority to sell the policies as detailed in their Terms of Business agreement but does not permit the retailer to set the underwriting risk price nor vary any of the policy documentation without prior approval.

The Company delegates claims handling to the Solicitors and a select number of claims handling companies. The Company undertakes due diligence in advance of any authorisation to handle claims and the authority to handle claims will be detailed within the Terms of Business agreement. The Company claims team will handle any complaints and / or complex claims.

Detailed line by line monthly bordereau are received from business partners to ensure that the Company has the necessary customer information it requires to complete its conduct risk reporting and monitoring of suitability of product.

The Company has a Delegated Authority Manager and a Product Oversight Manager who are responsible for both oversight of clients and the products sold. The DA revised the audit plan that now aligns with Consumer Duty regulations and focuses on assessing compliance with the key outcomes.
This is based on risk-based assessment which enables the DA to prioritise audit focus areas, based upon a variety of KPIs that include, complaints, inquiries, and customer satisfaction survey.
The Audit Reports provide the board with the findings, observations, and recommendations from the audit.

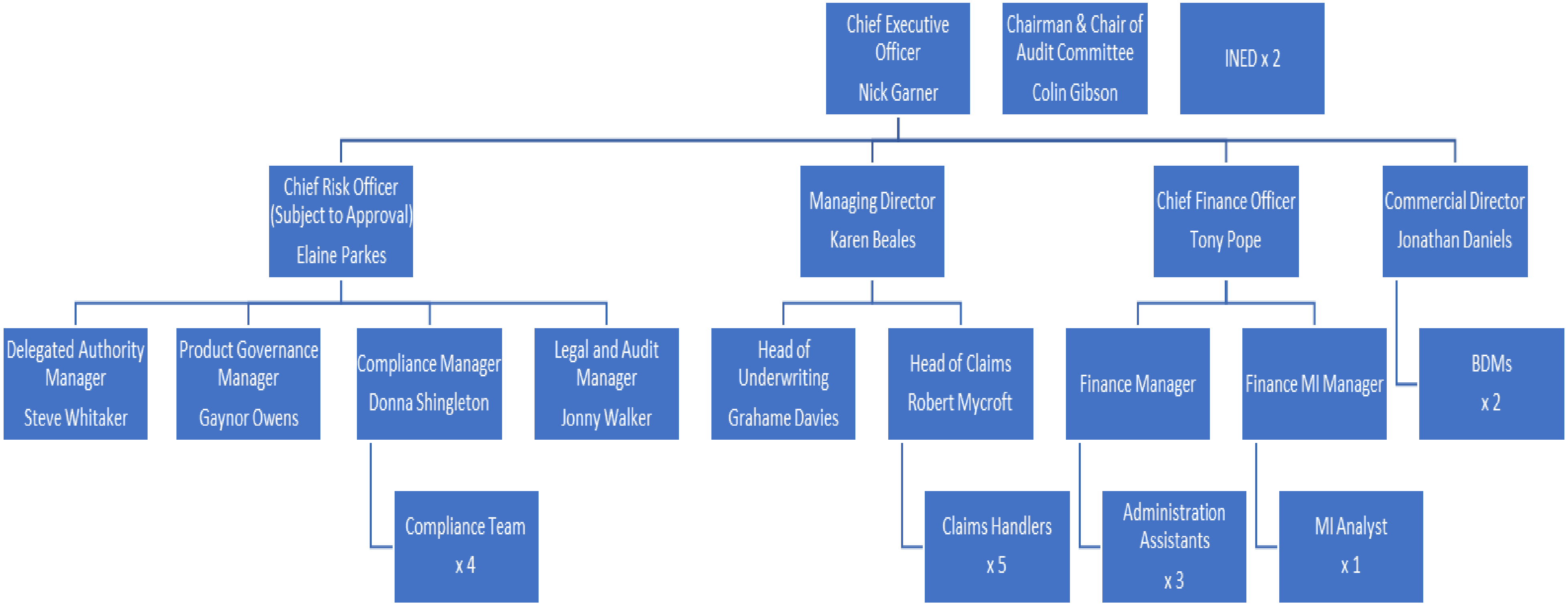
Ensuring we have an understanding of firms' compliance strength and areas for improvement.
The Company has introduced additional processes and KPIs during the last 12 months to further enhance the reporting and to meet Consumer Duty requirements.

The Company undertakes audits of the Solicitors and intermediaries to monitor their performance and adherence to the TOBA. Any issues are reported at the Management Meeting and to the Board and a detailed report prepared how the matter will be resolved and by when.

B9. Any other disclosures

There are no other disclosures.

B10.Organisational Structure (as at March 2024)



B11. Governance Map

Board Meetings

- **Management Meetings**
  - **Compliance & Risk**
    - **Risk Controls**: Risk Register, Risk Failures, Risk Breaches
    - Internal Audit
    - Governance, Strategy and Policies
    - Financial Crime & Anti Bribery
    - Consumer Duty: Outcome Testing, Customer Surveys
    - Conflict of Interest
    - AML
    - Outsourcing & Third Party
    - Operational resilience
    - Complaints
    - AR Oversight
    - Whistleblowing
  - **Legal & Audit**
    - Legal & Regulatory updates
    - Delegated Authority
  - **Monthly Management Report**
    - Claims MI
    - Sales MI
    - Underwriting Update
    - Financial Update
    - Other relevant MI
- **Underwriting/New Business**
  - Risk Appetite
  - New Business Checks, Onboarding checks, ToBAs
  - **Product Oversight Committee**
    - Product Approval Assesment
    - Consumer Outcomes
- **Remuneration**
- **Conduct Risk & Culture**
- **Audit**
- **Regulatory Requirements**
  - Solvency II
  - Liquidity Risk

C: Risk Management

C1. Underwriting Risk

The Company has historically predominantly offered Legal Expenses insurance, however over the last two years have followed the product diversification strategy into specialist ancillary products. The introduction of the new Consumer Duty rules and enhanced product oversight has meant a shift in the business and the creation of the Product Oversight Committee, with additional reporting and KPIs. Whilst the business clearly considers its risk appetite and underwriting performance. The business focus is firstly to ensure that products offer value to the customer before any risk is even considered. The approach is being refined and developed, with improvements continuing to enhance the process further.

Whilst the Company supports niche products, it will only permit new bespoke products after detailed analysis. The preference is for clients to sell the products already developed and tested by the Company ensuring of course it meets the consumer needs and that the target market is clearly defined.

The Company has continued to follow the strategy of product diversification but in doing so took the decision during 2023 to purchase reinsurance support from a small number of key reinsurers depending upon product line. The selection of reinsurers has been approved by the Board and continues to be monitored by the Underwriting Committee.

The Company has refined its Underwriting Guide to ensure a consistent approach in terms of product, pricing, and governance.

A key feature of the Underwriting consideration also relates to Value Measures, considering the KPIs from the regulatory reports (including but not limited to):

- Claims Frequency
- Claims cost compared to retail premiums.
- Claims Acceptance rates.
- Complaints volumes

The Company considers each product type and has a number of rating criteria and in turn reserving methodology depending upon the type of product, period of cover and product features. Claims inflation is a key consideration at the current time in light of economic climate and is considered at Board meetings when reviewing the financial performance.

The Company's reserving methodology and how the risks are mitigated are split between general insurance products, BTE and ATE business.

1. After the Event

- Reports are produced which analyse the following data relative to the year of issue and by type of claim:
    - Number of policy sales
    - Number of cancelled policies
    - Number of cases settled
    - Number of live cases
    - Number of claims
    - Costs of claims
    - Percentage of claims relative to the number of cases settled
    - The average cost of the claim per year
- This reporting provides a significant volume of data on which to base future predictions.

- In calculating the required provision, we consider and compare the most recent patterns in claims paid with “chain ladder” projections based on historical data and trends in settlement and claims volumes, and for average settlement and claims paid values at a level disaggregated by product and major acquisition channel/basis.

2. Before the Event

- BTE performance is monitored by analysing:

    - written premiums
    - earned premiums
    - claims costs
    - reserves on open claims
    - average claims costs
    - These reports are produced monthly and identify the experience by class of policy (e.g. motor, family, commercial, landlord) and by large schemes so that the performance is monitored, and remedial action taken for poor performing classes or schemes
    - The BTE reserving methodology is set out below

- Before the Event Reserving:

    - BTE claims are divided in to two distinct categories Motor and Non-Motor (Family, Landlord & Business). The two categories are treated differently for the purposes of the reserving methodology
    - The reason for this is that the frequency of Non-Motor claims resulting in a cost and the average claim cost is much higher than for Motor claims. It has therefore been determined that individual claim reserves are appropriate for certain Non-Motor claims, whereas Motor claims are reserved on a global basis by reference to analysis of the historic data and future trends

- All Non Motor BTE accepted claim reserves are reviewed at least at 3 monthly intervals, and also reviewed at various “milestone events” which may include such as Part 36 offer made or received or proceedings issued.
- On a quarterly basis a review takes place of the total claim provision held for each claim year, the claim costs incurred and the future anticipated claims costs, to ensure sufficient funds are allocated to the claim provision. Following this review where appropriate the claim provision is adjusted upwards or downwards accordingly.

General Insurance Products

Reports are produced which analyses the following data:

- Number of policy sales
- No of cancelled policies
- Written premiums
- Earned premiums
- Claims costs
- Reserves on open claims
- Average claim costs
- Policy periods and claims earning patterns

Client performance is reviewed at least quarterly with the client meetings and the premium and claims data is assessed monthly at the management meeting for each client. The clients are always updated with any potential issues and clearly discussed and recorded with actions agreed.

Inappropriate product and underwriting risk (premium)

This is managed by the Company's Product Oversight Committee and Underwriting Committees. The former reviews all new business, any products which change during the period and all products at least annually to ensure that they offer fair value to customers and there is clarity of the products, their distribution, target market and appropriate KPIs.

The POC reports to the Underwriting Committee, making its recommendations for either acceptance, changes or declinature to individual products and schemes. There is clear underwriting philosophy, procedures, and controls in relation to pricing, selection criteria and diversification of risks all of which are predicted on acceptance of the product by the POC. The Company also monitors its performance by account and type of business and will negotiate revised terms where it is appropriate and prudent to do so.

The risks are also mitigated by the Underwriting Committee as determined by the Terms of Reference for the committee. Any new products or variation to existing products are referred to the Committee and if necessary, in turn referred to the board for review and sign off.

Lapse risk.

This is the decrease in future contracts used in the calculation of the technical provisions. The Lapse risk is managed through the sign-up process which includes due diligence and senior manager sign off. Lapse risk is included in the non-life underwriting module of the SCR calculation below. To mitigate this risk, the lapse rates are monitored regularly, and unexpected movement is analysed to determine if this is an emerging trend across the whole book or peculiar to a particular source of work.

Risk Concentrations

The Company does not insure any class or group actions (unless approved by the Board) and as such is not generally exposed to any risk concentrations. The majority of business written in the legal expenses' product range are in relation to individual legal disputes which are settled independently.

To date the Board has only approved the Company's limited involvement in a very small number of class actions related to car engine emissions where the legal grounds for the case against the particular car manufacturer appeared already to be well established. One of these cases, against Volkswagen concluded successfully in 2023.

Legal changes

The Company is aware that any legal changes or court decisions can affect its business models. As such the Company has included in its business partner contracts and into its insurance policies an appropriate clause that if any legal or other similar changes occur that may affect solvency either immediately or in the future, that it has the right to re-negotiate the financial terms. To reflect the emerging risk, the Company monitors relevant press and parliamentary publications, and each month provides an industry update identifying any issues and the current state of progress on these emerging issues.

Risk Sensitivities

The Company, in assessing its capital requirements both currently and forward looking, stresses possible outcomes by assuming various percentage decreases in income and increases in claims costs.

C2. Market Risk

The Company is exposed to three elements of Market Risk – Concentration Risk, Interest Rate Risk and Spread Risk - and includes calculated elements for each in its SCR calculations. Concentration risk relates to reinsurance receivables and related party loans. The latter form a material part of the total Market Risk requirement calculation, but the exposure is mitigated substantially by security arrangements in place and the Board is satisfied that the total net Market Risk arising is manageable and acceptable for the Company.

C3. Credit Counterparty Risk

The risks considered are that a bank or other counterparty defaults on amounts held for or due to the Company. The Company's exposure to counterparty risk has been assessed in the context of the credit worthiness of the relevant counterparties (the only material exposure being Barclays Bank which is obviously an A rated bank) and is controlled and managed accordingly.

C4. Liquidity Risk

As at 31st December 2023 100% (2022: 100%) of the Company's investment assets were held in highly liquid short term cash deposits.

The FLI Board have approved a Liquidity Risk Management Framework and a Liquidity Risk Policy comprising the following three elements:

1 Definition of Liquid Resources
2 Liquidity Risk Appetite
3 Measurement, Reporting and Control

Cash flow forecasts are updated and reviewed as necessary by the Board in the context of this framework.

C5. Operational Risk

Operational risk arises from inadequate processes or controls resulting in a breach or failure causing inaccurate processing of transactions or non-compliance with regulatory or legal obligations as well as the potential for contractual disputes with business partners. The Company has operational risk processes in place to mitigate this risk supported by a management information system which tracks transactions through to the financial accounts this enabling any anomalies to be easily identified and rectified. The business is also testing its Operational Resilience policy including consideration of tolerance levels with an ongoing project managed by the Head of Risk and Compliance (acting CRO) and the IT manager.

C6. Other material risks

Increase in the oversight required for all products and clients, ensuring fair value.

The last two years has seen a change in strategy by the regulator to have an increased focus on consumers and fair value, culminating in the new Consumer Duty rules, effective from July 2023. This change led the Company to consider its approach and decided to recruit a Chief Risk Officer and to further strengthen the risk and compliance team in addition to the recruitment of a Product Manager.

New processes, procedures and reporting has been introduced; however, challenges still remain in place with both the Company's own internal reporting and also the collation of the necessary information from clients meaning that the reporting is consistently being reviewed and improved to ensure regulatory requirements are met.

In late 2023 and early 2024, the FCA intervened in the market for GAP insurance, requiring suspension of most of the sales of such products and requesting GAP insurance product manufacturers including the Company to demonstrate the processes followed in determining that their GAP products offered fair value. The FCA specifically instructed that the sale through dealership networks of GAP products be suspended from 31 March 2024. While the Company believes that the GAP products it manufactures and distributes through selected partners do offer fair value it also recognised a clear need to improve the documentation of its decision making and review processes in this area. The large majority of the Company's GAP products are distributed online rather than through dealership networks and the FCA are currently permitting GAP sales via online distribution until 30th April 2024 to allow them sufficient time to review the data submitted.

The Company continues to liaise closely with the FCA and selected external specialist advisers in respect of the issues arising from this area and has already implemented a number of improvements to the processes by which it reviews and documents decisions in respect of product fair value.

D: Valuation for solvency purposes

D1. Assets

The following tables summarise the main differences between GAAP and Solvency II balance sheet valuations.

The table below shows a valuation of the Company's assets at 31st December 2023 together with comparatives for the prior year.

Total Assets (£'000)	2023 As per GAAP	2023 As per Solvency II	2022 As per GAAP	2022 As per Solvency II
Investments and cash at bank	21,954	21,954	9,199	9,199
Insurance receivables	10,452	-	7,826	-
Reinsurance recoverables	2,958	2,167	218	218
Amounts Due from Related Parties	7,340	7,340	4,540	4,540
Fixed assets including intangibles	468	-	439	-
Other Assets	3,420	142	1,204	39
Total Assets	**46,591**	**31,602**	**23,427**	**13,997**

The Company's investments and cash at bank are valued for Solvency II purposes on the same basis as the UK GAAP valuation. All cash is held in instant access funds within major UK banks. Amounts due from Related Parties are largely interest bearing as noted earlier. There are no estimates or judgements involved in valuing these assets.

In the Solvency II balance sheet insurance receivables only include amounts due at the valuation date. Any premium value which is not yet due, and the unearned value of commissions are included in the technical provision calculation below as per the Solvency II directive.

Amounts due from related parties comprise loans made to three companies under common ownership.

Fixed assets largely comprise a new computer system under development and since the Company now view this as an item that cannot be sold to an external party, no value is attributed for SII purposes.

Other assets largely comprise accrued income which is included within the BEL calculation within Technical Provisions (see below).

D2. Technical Provisions

The table below shows the calculation of the Company's technical provisions as 31st December 2023 together with comparatives for the prior year.

Technical Provisions	2023 As per GAAP	2023 As per Solvency II	2022 As per GAAP	2022 As per Solvency II
Technical provisions	(13,540)		(8,406)	
Best estimate of liabilities (BEL)		(10,590)		(3,541)
Risk Margin		(909)		(431)
Adjustment for counterparty default risk		-		-
Discount for future cashflow		787		356
Total Technical Provisions	**(13,540)**	**(10,713)**	**(8,406)**	**(3,617)**

The Best Estimate of Liabilities (BEL) is calculated based on all policies in force and on risk at 31st December 2023. Detailed analysis on a policy-by-policy basis has been undertaken to calculate the most likely aggregate outcome in terms of premium income, claims cost and commission cost.

The increase is driven by the increased volumes, most notably the significant increase in upfront ATE financial mis-selling business as noted below.

The BEL comprises:

- ATE deferred premiums which remain outstanding, these premiums will produce net positive cash flows in the future after payment of all related claims and therefore the technical provision arising from this element is negative.
- ATE upfront premiums where payment has been received but the underlying legal case is ongoing. Although the Company is confident these revenue stream will be ultimately profitable, a relatively conservative approach has been adopted regarding the return of these premiums when quantifying both the GAAP and SII liabilities. At 31 December 2023 these premiums amounted to £18.3m (2022: £4.7m) which is the primary reason for the variation in the Technical Provision from prior year.
- Non-ATE claims reserve – settlement of all claims including incurred but not reported and unearned:
- Non-ATE accrued income – policies incepted by 31 December 2023 where payment had not yet been received.
- Operating expenses estimated to be incurred in running off the book.

Adjustments or transitional measures used to calculate the value of technical provision.

The Company is not using a volatility adjustment or matching adjustment or any transitional arrangement within the calculation of technical provisions.

D3. Other Liabilities

The table below shows the Company's other liabilities as 31st December 2023 together with comparatives for the prior year.

Total Liabilities (£'000)	2023 As per GAAP	2023 As per Solvency II	2022 As per GAAP	2022 As per Solvency II
Technical provisions	(13,540)	(10,713)	(8,406)	(3,617)
Other provisions	-	-	-	-
Insurance payables	(22,087)	(1,359)	(7,431)	(221)
Accruals / deferred income	(336)	-	(270)	-
Other creditors	(3,654)	(6,132)	(1,570)	(1,934)
Total Liabilities (£'000)	**(39,617)**	**(18,204)**	**(17,676)**	**(5,772)**

Insurance payables primarily comprise creditor balances relating to ATE deferred premiums and a provision to repay upfront ATE premiums, both of which are included in SII Technical Provision calculation.

Other creditors are primarily IPT, PAYE and corporation tax due at valuation date.

D4. Any other disclosures

The Company does not use any alternative methods of valuation.

E: Capital Management

E1. Own Funds

Please see table below which summarises the capital requirement and shareholders' funds over the coming 5 years.

Medium Term Capital Management Plan		ACT 2023	FC 2024	FC 2025	FC 2026	FC 2027	FC 2028
Earned Premium (net of reinsurance)	£'000	10,353	13,701	17,034	17,189	17,586	18,412
Max Earned Current & Prior Year	£'000	13,701	17,034	17,189	17,586	18,412	18,412
SCR	£'000	8,133	9,722	10,046	10,292	10,879	11,394
Shareholders' Funds	£'000	6,974	7,987	10,080	11,973	13,764	15,765
Eligible Own Funds	£'000	13,399	18,531	20,476	21,879	24,001	26,156
Excess Funds	£'000	5,265	8,809	10,429	11,587	13,122	14,763
SCR Ratio	%	165%	191%	204%	213%	221%	230%

E2. Minimum capital requirement (MCR) and solvency capital requirement (SCR)

The tables below show the Company's MCR and SCR as at 31st December 2023 together with prior year comparatives.

Solvency Capital Requirement	2023 £'000	2022 £'000
Market risk	1,662	1,143
Counterparty risk	1,472	617
Non life underwriting and reserve risk	6,270	4,029
Basic SCR undiversified	9,404	5,789
Diversification credit	(1,664)	(987)
Intangible asset risk	-	-
Basic SCR	7,740	4,802
Operational risk	393	235
SCR	**8,133**	**5,037**

Capital Requirements & Solvency Ratio	2023 Capital Requirement £'000	2022 Capital Requirement £'000	2023 Solvency Ratio	2022 Solvency Ratio
MCR	2,359	2,325	5.68	3.54
SCR	8,133	5,037	1.65	1.63

The MCR is the greater of the absolute, linear, and combined MCR. The absolute minimum capital requirement (AMCR) is calculated using the Solvency II guidelines based on the classes of business written (17 & 18). On that basis the AMCR is €2.7M which is converted to GBP using the PRA year end rate of 0.87366 to give an AMCR of £2.4m as shown above. The linear and combined MCR calculations both produce values lower than the AMCR and therefore this figure is used as the MCR.

The SCR is calculated using the Solvency II standard formula and has increased slightly from 1.63 to 1.65 in the year primarily due to the increase in shareholder funds, offset by an increased solvency requirement relating to underwriting risk reflecting growth.

E3. The option set out in Article 305b used for the calculation of its solvency capital requirement.

This section is not applicable to the Company.

E4. Differences between the standard formula and any internal models used.

The Company operates the standard model and therefore this section is not applicable to the company.

E5. Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement

The Company complied with both its MCR and SCR at all times during the year ended 31st December 2022

E6. Any other disclosures

There are no other disclosures.

SFCR Templates

1

S.01.02.01
Basic information - General

	General information	C0010
R0010	Undertaking name	Financial & Legal Insurance Company
R0020	Undertaking identification code	213800QY2AY6VELK3427
R0030	Type of code of undertaking	LEI
R0040	Type of undertaking	Non-life undertakings
R0050	Country of authorisation	GB
R0070	Language of reporting	en
R0080	Reporting submission date	2024-04-05
R0081	Financial year end	2023-12-31
R0090	Reporting reference date	2023-12-31
R0100	Regular/Ad-hoc submission	Regular reporting
R0110	Currency used for reporting	GBP
R0120	Accounting standards	IFRS
R0130	Method of Calculation of the SCR	Standard formula
R0140	Use of undertaking specific parameters	Don’t use undertaking specific parameters
R0150	Ring-fenced funds	Not reporting activity by RFF
R0170	Matching adjustment	No use of matching adjustment
R0180	Volatility adjustment	No use of volatility adjustment
R0190	Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
R0200	Transitional measure on technical provisions	No use of transitional measure on technical provisions
R0210	Initial submission or re-submission	Re-submission
R0250	Exemption of reporting ECAI information	Not exempted
R0255	URL to the webpage where the Solvency and Financial Condition Report (SFCR) is disclosed	https://www.financialandlegal.co.uk/news-reports/
R0260	Direct URL to download the Solvency and Financial Condition Report (SFCR) corresponding to this financial year reporting obligation (R0090)	NOT PROVIDED/NOT AVAILABLE

S.02.01.01
Balance sheet

		Solvency II value	Statutory accounts value
	Assets	C0010	C0020
R0010	Goodwill		
R0020	Deferred acquisition costs		
R0030	Intangible assets	-	468
R0040	Deferred tax assets	-	-
R0050	Pension benefit surplus	-	-
R0060	Property, plant & equipment held for own use	-	-
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	-	-
R0080	*Property (other than for own use)*	-	-
R0090	*Holdings in related undertakings, including participations*	-	-
R0100	*Equities*	-	-
R0110	*Equities - listed*	-	-
R0120	*Equities - unlisted*	-	-
R0130	*Bonds*	-	-
R0140	*Government Bonds*	-	-
R0150	*Corporate Bonds*	-	-
R0160	*Structured notes*	-	-
R0170	*Collateralised securities*	-	-
R0180	*Collective Investments Undertakings*	-	-
R0190	*Derivatives*	-	-
R0200	*Deposits other than cash equivalents*	-	-
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:	2,167	2,958
R0280	*Non-life and health similar to non-life*	2,167	2,958
R0290	*Non-life excluding health*	2,167	2,958
R0300	*Health similar to non-life*	-	-
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	-	11,953
R0370	Reinsurance receivables	-	-
R0380	Receivables (trade, not insurance)	-	-
R0390	Own shares (held directly)	-	-
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	-	-
R0410	Cash and cash equivalents	21,954	21,954
R0420	Any other assets, not elsewhere shown	7,482	7,482
R0500	**Total assets**	31,602	44,815

		Solvency II value	Statutory accounts value
	Liabilities	C0010	C0020
R0510	Technical provisions - non-life	10,713	11,839
R0520	*Technical provisions - non-life (excluding health)*	10,713	11,839
R0530	*TP calculated as a whole*	-	
R0540	*Best Estimate*	9,803	
R0550	*Risk margin*	909	
R0560	*Technical provisions - health (similar to non-life)*	-	-
R0570	*TP calculated as a whole*	-	
R0580	*Best Estimate*	-	
R0590	*Risk margin*	-	
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*	-	
R0730	Other technical provisions		-
R0740	Contingent liabilities	-	-
R0750	Provisions other than technical provisions	-	-
R0760	Pension benefit obligations	-	-
R0770	Deposits from reinsurers	-	-
R0780	Deferred tax liabilities	-	-
R0790	Derivatives	-	-
R0800	Debts owed to credit institutions	-	-
R0810	Financial liabilities other than debts owed to credit institutions	-	-
R0820	Insurance & intermediaries payables	-	20,652
R0830	Reinsurance payables	1,359	1,359
R0840	Payables (trade, not insurance)	-	-
R0850	Subordinated liabilities	-	-
R0860	*Subordinated liabilities not in BOF*	-	-
R0870	*Subordinated liabilities in BOF*	-	-
R0880	Any other liabilities, not elsewhere shown	6,132	3,990
R0900	**Total liabilities**	18,204	37,841
R1000	**Excess of assets over liabilities**	13,399	6,974

S.05.01.01

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and...	
		Legal expenses insurance	**Total**
		C0100	C0200
	Premiums written		
R0110	*Gross - Direct Business*	15,714	15,714
R0120	*Gross - Proportional reinsurance accepted*	-	-
R0130	*Gross - Non-proportional reinsurance accepted*		-
R0140	*Reinsurers' share*	2,499	2,499
R0200	*Net*	13,216	13,216
	Premiums earned		
R0210	*Gross - Direct Business*	11,150	11,150
R0220	*Gross - Proportional reinsurance accepted*	-	-
R0230	*Gross - Non-proportional reinsurance accepted*		-
R0240	*Reinsurers' share*	798	798
R0300	*Net*	10,353	10,353
	Claims incurred		
R0310	*Gross - Direct Business*	5,524	5,524
R0320	*Gross - Proportional reinsurance accepted*	-	-
R0330	*Gross - Non-proportional reinsurance accepted*		-
R0340	*Reinsurers' share*	-	-
R0400	*Net*	5,524	5,524
	Changes in other technical provisions		
R0410	*Gross - Direct Business*	-	-
R0420	*Gross - Proportional reinsurance accepted*	-	-
R0430	*Gross - Non-proportional reinsurance accepted*		-
R0440	*Reinsurers' share*	-	-
R0500	*Net*	-	-
R0550	**Expenses incurred**	3,476	3,476
	Administrative expenses		
R0610	*Gross - Direct Business*	-	-
R0620	*Gross - Proportional reinsurance accepted*	-	-
R0630	*Gross - Non-proportional reinsurance accepted*		-
R0640	*Reinsurers' share*	-	-
R0700	*Net*	-	-
	Investment management expenses		
R0710	*Gross - Direct Business*	-	-
R0720	*Gross - Proportional reinsurance accepted*	-	-
R0730	*Gross - Non-proportional reinsurance accepted*		-
R0740	*Reinsurers' share*	-	-
R0800	*Net*	-	-
	Claims management expenses		
R0810	*Gross - Direct Business*	-	-
R0820	*Gross - Proportional reinsurance accepted*	-	-
R0830	*Gross - Non-proportional reinsurance accepted*		-
R0840	*Reinsurers' share*	-	-
R0900	*Net*	-	-
	Acquisition expenses		
R0910	*Gross - Direct Business*	856	856
R0920	*Gross - Proportional reinsurance accepted*	-	-
R0930	*Gross - Non-proportional reinsurance accepted*		-
R0940	*Reinsurers' share*	-	-
R1000	*Net*	856	856
	Overhead expenses		
R1010	*Gross - Direct Business*	2,620	2,620
R1020	*Gross - Proportional reinsurance accepted*	-	-
R1030	*Gross - Non-proportional reinsurance accepted*		-
R1040	*Reinsurers' share*	-	-
R1100	*Net*	2,620	2,620
R1200	**Other expenses**		
R1300	**Total expenses**		3,476

S.17.01.01
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance – Legal expenses insurance	Total Non-Life obligation
		C0110	C0180
R0010	**Technical provisions calculated as a whole**	-	-
R0020	Direct business		-
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 - Total**	(458)	(458)
R0070	Gross - direct business	(458)	(458)
R0100	Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	-	-
R0110	*Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses*		-
R0120	*Recoverables from SPV before adjustment for expected losses*		-
R0130	*Recoverables from Finite Reinsurance before adjustment for expected losses*		-
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	1,347	1,347
R0150	**Net Best Estimate of Premium Provisions**	(1,805)	(1,805)
	Claims provisions		
R0160	**Gross - Total**	10,261	10,261
R0170	Gross - direct business	10,261	10,261
R0200	Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	-	-
R0210	*Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses*		-
R0220	*Recoverables from SPV before adjustment for expected losses*		-
R0230	*Recoverables from Finite Reinsurance before adjustment for expected losses*		-
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	820	820
R0250	**Net Best Estimate of Claims Provisions**	9,441	9,441
R0260	**Total best estimate - gross**	9,803	9,803
R0270	**Total best estimate - net**	7,636	7,636
R0280	**Risk margin**	909	909
	Amount of the transitional on Technical Provisions		
R0290	TP as a whole		-
R0300	Best estimate		-
R0310	Risk margin		-
R0320	**Technical provisions - total**	10,713	10,713
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	2,167	2,167
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total**	8,545	8,545
	Line of Business (LoB): further segmentation (Homogeneous Risk Groups)		
R0350	*Premium provisions - Total number of homogeneous risk group*		
R0360	*Claims provisions - Total number of homogeneous risk groups*		
	Cash-flows of the Best estimate of Premium Provisions (Gross)		
	Cash out-flows		
R0370	*Future benefits and claims*		-
R0380	*Future expenses and other cash out-flows*		-
	Cash in-flows		
R0390	*Future premiums*	458	458
R0400	*Other cash in-flows (incl. Recoverables from salvages and subrogations)*		-
	Cash-flows of the Best estimate of Claims Provisions (Gross)		
	Cash out-flows		
R0410	*Future benefits and claims*	7,291	7,291
R0420	*Future expenses and other cash out-flows*	2,970	2,970
	Cash in-flows		
R0430	*Future premiums*		-
R0440	*Other cash in-flows (incl. Recoverables from salvages and subrogations)*		-
R0450	Percentage of gross Best Estimate calculated using approximations	0	
R0460	Best estimate subject to transitional of the interest rate		-
R0470	Technical provisions without transitional on interest rate		-
R0480	Best estimate subject to volatility adjustment		-
R0490	Technical provisions without volatility adjustment and without others transitional measures		-

Gross Claims Paid (non-cumulative)

(absolute amount)

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +	In Current year	Sum of years (cumulative)
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Prior																		-
N-14	4	46	147	177	99	95	36	-	23	4	-	-	-	-				631
N-13	7	133	230	257	286	103	137	35	31	-	-	-	-					1,218
N-12	9	197	269	383	196	129	59	27	-	-	9	-						1,278
N-11	19	191	485	339	351	184	102	27	-	67	50							1,815
N-10	27	291	366	302	208	126	54	22	30	5								1,431
N-9	30	236	267	348	264	111	69	24	27									1,375
N-8	77	311	661	461	251	153	99	5										2,019
N-7	63	709	804	634	300	254	111	7									7	2,882
N-6	335	1,049	1,047	882	678	216	97										97	4,305
N-5	211	890	1,019	971	367	487											487	3,945
N-4	172	940	1,187	839	975												975	4,112
N-3	171	907	908	1,277													1,277	3,262
N-2	267	785	1,179														1,179	2,230
N-1	402	817															817	1,218
N	117																117	117
																Total	4,955	31,840

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +	Year end (discounted data)
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320	C0330	C0340	C0350	C0360
Prior																-	
N-14	247	166	60	40	15	5	-	-	-	1	2	-	-	-	-		
N-13	583	232	168	76	19	-	-	-	4	10	-	-	-	-			
N-12	489	246	142	49	29	-	-	5	15	-	-	-	-				
N-11	547	309	74	27	143	71	14	29	-	-	-	-					-
N-10	479	65	4	104	44	19	66	11	-	-	-						-
N-9	250	64	108	73	32	106	76	-	-	-							-
N-8	71	269	193	67	81	157	-	-	-								-
N-7	378	397	109	169	93	-	-	6									6
N-6	1,182	295	324	294	14	208	85										85
N-5	1,264	1,069	944	134	352	428											428
N-4	1,290	1,315	216	806	857												857
N-3	1,302	737	872	1,122													1,122
N-2	1,785	754	1,036														1,036
N-1	386	1,507															1,507
N	1,945																1,945
																Total	6,986

Gross Reported but not Settled Claims (RBNS)

(absolute amount)

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +	Year end (discounted data)
	C0400	C0410	C0420	C0430	C0440	C0450	C0460	C0470	C0480	C0490	C0500	C0510	C0520	C0530	C0540	C0550	C0560
Prior																-	
N-14						-	-	-	-	-	-	-	-	-	-		
N-13					12	-	-	-	-	-	-	-	-	-			
N-12				-	-	1	-	-	6	-	-	-	-				
N-11			16	18	42	-	-	-	-	-		-					-
N-10		56	88	77	-	30	39	-	-		-						-
N-9	26	109	137	48	81	76	-	-		-							-
N-8	11	36	88	44	26	56	-		-								-
N-7	91	54	115	105	109	-		3									3
N-6	162	209	170	38	13	147	38										38
N-5	284	355	150	37	250	191											191
N-4	361	244	110	571	382												382
N-3	507	349	618	501													501
N-2	1,129	534	462														462
N-1	273	673															673
N	868																868
																Total	3,118

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	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	1,332	1,332		-	
R0030	Share premium account related to ordinary share capital	30	30		-	
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	12,036	12,036			
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	-	-	-	-	-
	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					
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	-				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	-				
R0290	**Total basic own funds after deductions**	13,399	13,399	-	-	-
	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	13,399	13,399	-	-	-
R0510	Total available own funds to meet the MCR	13,399	13,399	-	-	
R0540	Total eligible own funds to meet the SCR	13,399	13,399	-	-	-
R0550	Total eligible own funds to meet the MCR	13,399	13,399	-	-	
R0580	**SCR**	8,133				
R0600	**MCR**	2,359				
R0620	**Ratio of Eligible own funds to SCR**	165%				
R0640	**Ratio of Eligible own funds to MCR**	568%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	13,399
R0710	Own shares (held directly and indirectly)	-
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,362
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-
R0760	**Reconciliation reserve**	12,036

	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	10,713
R0790	**Total Expected profits included in future premiums (EPIFP)**	10,713

S.25.01.01

Solvency Capital Requirement - for undertakings on Standard Formula

Z0010 Article 112 **Regular reporting**

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios	USP	Simplifications
		C0030	C0040	C0050	C0090	C0120
R0010	Market risk	1,662	1,662	-		
R0020	Counterparty default risk	1,472	1,472	-		
R0030	Life underwriting risk			-		
R0040	Health underwriting risk			-		
R0050	Non-life underwriting risk	6,270	6,270	-		
R0060	Diversification	(1,664)	(1,664)			
R0070	Intangible asset risk	-	-			
R0100	**Basic Solvency Capital Requirement**	7,740	7,740			

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0130	Operational risk	393
R0140	Loss-absorbing capacity of technical provisions	-
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	8,133
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	8,133
	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	
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	No adjustment
R0460	Net future discretionary benefits	-

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	

	Calculation of loss absorbing capacity of deferred taxes	Before the shock	After the shock	LAC DT
		C0110	C0120	C0130
R0600	**DTA**			
R0610	DTA carry forward			
R0620	DTA due to deductible temporary differences			
R0630	**DTL**			
R0640	**LAC DT**			
R0650	LAC DT justified by reversion of deferred tax liabilities			
R0660	LAC DT justified by reference to probable future taxable economic profit			
R0670	LAC DT justified by carry back, current year			
R0680	LAC DT justified by carry back, future years			
R0690	Maximum LAC DT			