

# Markel International Insurance Company Limited

Solvency and Financial Condition Report for  
the year ended December 31, 2020



STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	5
AUDITOR'S REPORT.....	6
SUMMARY.....	12
<b>A. BUSINESS AND PERFORMANCE .....</b>	<b>13</b>
A.1 COMPANY INFORMATION.....	13
A.1.1 Group Structure.....	13
A.1.2 Group Supervision .....	14
A.2 BUSINESS.....	15
A.2.1 Marine.....	15
A.2.2 Energy .....	15
A.2.3 Professional and Financial Risks .....	15
A.2.4 Equine and Livestock .....	15
A.2.5 Cyber .....	16
A.2.6 Trade Credit, Political Risk and Surety.....	16
A.2.7 Reinsurance.....	16
A.2.8 Market Specialty .....	16
A.2.9 National Markets .....	16
A.2.10 Latin America.....	16
A.3 BUSINESS DURING 2020.....	17
A.3.1 Analysis of business by operating segment and SII line of business.....	17
A.3.2 Analysis by geographic area.....	18
A.3.3 COVID-19.....	18
A.4 CHANGES DURING 2020 .....	18
A.4.1 Classes of Business.....	18
A.4.2 ECIC Part VII Transfer .....	19
A.4.3 Distribution.....	19
A.4.4 International Development .....	19
A.4.5 Entity Quota Share .....	19
A.5 UNDERWRITING PERFORMANCE.....	19
A.5.1 Analysis by SII Line of Business .....	19
A.5.2 Analysis by Geographic Area .....	20
A.6 INVESTMENT PERFORMANCE .....	21
A.6.1 Investment Return.....	21
A.6.2 SII Investment Categorisation and Disclosures.....	22
A.6.3 Investment Securitisation .....	22
A.7 POST BALANCE SHEET EVENTS .....	23
A.8 PERFORMANCE OF OTHER ACTIVITIES .....	23
A.9 ANY OTHER INFORMATION.....	23
<b>B. SYSTEM OF GOVERNANCE .....</b>	<b>24</b>
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE .....	24
B.1.1 The Board .....	24
B.1.2 Board Reporting Committees .....	24
B.1.3 Key Functions .....	25
B.1.4 Remuneration Policy and Practices.....	26
B.1.5 Performance Criteria .....	26
B.1.6 Material Transactions with Related Parties.....	27
B.2 FIT AND PROPER REQUIREMENTS .....	27
B.2.1 Fit and Proper Assessment.....	27
B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT .....	27
B.3.1 Risk Management.....	27
B.3.2 ORSA .....	27
B.3.3 IM Governance.....	28
B.3.4 IM Validation.....	28

B.4	INTERNAL CONTROL SYSTEM .....	29
B.4.1	The Compliance Function .....	29
B.5	INTERNAL AUDIT FUNCTION .....	30
B.6	ACTUARIAL FUNCTION .....	30
B.7	OUTSOURCING .....	30
B.7.1	Critical / Important Outsourcing .....	30
B.7.2	Material Intra-Group Outsourcing .....	31
B.8	ASSESSMENT OF ADEQUACY OF SYSTEM OF GOVERNANCE .....	32
B.9	ANY OTHER INFORMATION .....	32
C.	RISK PROFILE .....	33
C.1	OVERVIEW .....	33
C.2	CAPITAL REQUIREMENTS .....	33
C.3	RISK MITIGATION .....	34
C.4	STRESS & SENSITIVITY TESTS .....	34
C.5	KEY RISK AREAS .....	35
C.5.1	Underwriting Risk .....	35
C.5.2	Reserving Risk .....	35
C.5.3	Market Risk .....	36
C.5.4	Credit Risk .....	36
C.5.5	Operational Risk .....	37
C.5.6	Pension Risk .....	37
C.6	OTHER RISK AREAS .....	37
C.6.1	Liquidity Risk .....	37
C.6.2	Group Risk .....	38
C.6.3	Acquisition Risk .....	38
C.6.4	Strategic Risk .....	38
C.7	ANY OTHER INFORMATION .....	38
C.7.1	Climate change .....	38
D.	VALUATION FOR SOLVENCY PURPOSES .....	39
GENERAL VALUATION PRINCIPLES REQUIRED UNDER SII FRAMEWORK .....	39	
Comparison of UKGAAP Financial Statements and SII Balance Sheet .....	39	
D.1	ASSETS .....	39
D.1.1	Property, Plant and Equipment .....	39
D.1.2	Investments in Related Undertakings .....	39
D.1.3	Equities .....	40
D.1.4	Bonds .....	40
D.1.5	Collective Investment Undertakings .....	41
D.1.6	Deposits other than Cash Equivalents .....	41
D.1.7	Reinsurance Recoverables .....	41
D.1.8	Deposits with Ceding Undertakings .....	41
D.1.9	Insurance and Reinsurance Receivables .....	41
D.1.10	Trade Receivables .....	41
D.1.11	Cash and Cash Equivalents .....	41
D.1.12	Deferred Acquisition Costs and Reinsurers' Share of Unearned Premiums .....	42
D.1.13	Pension benefit surplus .....	42
D.2	TECHNICAL PROVISIONS .....	42
D.2.1	Required Valuation Methodology under SII Framework .....	42
D.2.2	Uncertainties with Valuations of Technical Provisions .....	43
D.2.3	Value of Technical Provisions as at December 31, 2020 and Analysis by LOB .....	44
D.2.4	Transitional Provisions .....	44
D.3	OTHER LIABILITIES .....	44
D.3.1	Pension Benefit Obligations .....	44
D.3.2	Deposits from Reinsurers .....	45
D.3.3	Deferred Tax Liabilities .....	45
D.3.4	Insurance and Reinsurance Payables .....	45
D.3.5	Trade Payables .....	46
D.3.6	Gross Unearned Premiums .....	46
D.4	ALTERNATIVE METHODS FOR VALUATION .....	46

D.5	ANY OTHER INFORMATION .....	46
E.	CAPITAL MANAGEMENT .....	47
E.1	OWN FUNDS .....	47
E.1.1	Objectives, Policies and Processes for Managing Own Funds.....	47
E.1.2	Own Funds Classified by Tiers.....	47
E.1.3	Transitional Arrangements.....	47
E.1.4	Difference between Shareholder’s Equity as shown in the Financial Statements and the SII Value of Excess Assets over Liabilities .....	47
E.1.5	Eligible amount of Own Funds to meet SCR .....	47
E.1.6	Eligible Amount of Own Funds to meet MCR .....	48
E.2	SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT (UNAUDITED).....	48
E.2.1	IM SCR.....	48
E.2.2	Minimum Capital Requirement.....	49
E.2.3	Underwriting Specific Parameters Pursuant to Article 104 of the SII Directive .....	49
E.2.4	Application of Options under Article 51 of the SII Directive.....	49
E.3	USE OF DURATION BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT .....	49
E.4	DIFFERENCES BETWEEN THE STANDARD FORMULA AND THE IM .....	49
E.4.1	Uses of IM.....	49
E.4.2	Data for the IM .....	50
E.4.3	IM SCR – methodology and time horizon.....	50
E.4.4	Key differences in methodologies between the IM and SF .....	50
E.5	IMPACT OF PART VII TRANSFER .....	51
E.6	NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR .....	51
E.7	ANY OTHER INFORMATION .....	51
	GLOSSARY .....	52
	APPENDICES .....	55

S.02.01.02	Balance Sheet
S.05.01.02	Premiums, Claims and Expenses by Line of Business (Non-life)
S.05.01.02	Premiums, Claims and Expenses by Line of Business (Life)
S.05.02.01	Premiums, Claims and Expenses by Country (Non-life)
S.05.02.01	Premiums, Claims and Expenses by Country (Life)
S.12.01.02	Life and Health SLT Technical Provisions
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life Insurance Claims
S.23.01.01	Own Funds
S.25.03.01	Solvency Capital Requirement – for undertakings on Full Internal Models
S.25.03.01	Solvency Capital Requirement – for undertakings on Full Internal Models
S.28.01.01	Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

## Board of Directors

John W J Spencer (Chair)  
Wai-Fong Au  
Andrew J Davies  
James Hastings  
Nicholas J S Line  
Kalpana Shah  
William D Stovin  
Anne Whitaker  
Simon Wilson

## Statement of Directors' Responsibilities

We acknowledge our responsibility for preparing the Markel International Insurance Company Limited ("MIICL" or "the Company") Solvency and Financial Condition Report ("SFCR") in all material respects in accordance with the Prudential Regulation Authority ("PRA") rules and Solvency II ("SII") regulations.

We are satisfied that:

- Throughout the financial year in question, MIICL has complied in all material respects with the requirements of the PRA rules and the SII regulations as applicable to the Company; and
- It is reasonable to believe that MIICL has continued so to comply subsequently and will continue so to comply up to December 31, 2021.

On behalf of the Board



**Andrew J Davies**  
Director  
London

April 8, 2021

## **Report of the external independent auditor to the Directors of Markel International Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms**

### **Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report**

#### **Opinion**

Except as stated below, we have audited the following documents prepared by Markel International Insurance Company Limited as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Markel International Insurance Company Limited as at 31 December 2020, (**the Narrative Disclosures subject to audit**); and
- Company templates S02.01.02, S12.01.02, S17.01.02, S23.01.01, S28.01.01 (**the Templates subject to audit**).

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21, S.25.03.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Markel International Insurance Company Limited as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of Matter – special purpose basis of accounting**

We draw attention to the 'Valuation for solvency purposes' section of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation

Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

## **Going concern**

The Directors have prepared the Solvency and Financial Condition Report on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Solvency and Financial Condition Report ("the going concern period").

We used our knowledge of the Company, its industry and the general economic environment in which it operates to identify the inherent risks in its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that was considered most likely to adversely affect the company's available financial resources over this period was adverse insurance reserves development, potentially caused by the impacts of the COVID-19 pandemic.

We considered whether these risks could plausibly affect the liquidity or solvency position in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity or capital issue, taking into account the Company's current and projected cash, facilities and capital position.

Our procedures also included:

- Assessing assumptions in the downside scenarios relevant to the liquidity and solvency position (particularly the impact of COVID-19 on reinsurance recoveries and claims paid), and the capital position (as referred to in the Company's Own Risk and Solvency Assessment "ORSA"); and
- Evaluating the achievability of the actions the Directors consider they would take to improve the position should the downside risks materialise, which included access to additional group funding.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

## **Fraud and breaches of laws and regulations – ability to detect**

### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit, audit committee and the legal, risk and compliance functions, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Considering remuneration incentive schemes.
- Reading board, audit committee, and other relevant committee meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls and in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the Solvency II technical provisions. On this audit we did not consider there to be a fraud risk related to revenue recognition, due to the fact that this is an audit of the Company's Solvency II balance sheet in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

In order to address the risk of fraud specifically as it relates to the valuation of claims outstanding incurred but not reported ("IBNR") (used in the calculation of Solvency II technical provisions), we involved actuarial specialists to assess the appropriateness and consistency of the methods and assumptions used to estimate the IBNR for all reserving classes, assessing the results for evidence of bias.

In order to address the risk of management over-ride of controls we identified journal entries to test based on risk criteria and compared these entries to supporting documentation. These included those posted to cash accounts with unusual debits and credits and journals posted by specific individuals and post closing journals.

#### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Company's Solvency and Financial Condition Report from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence. We discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the Company's Solvency and Financial Condition Report varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Company's Solvency and Financial Condition Report and we assessed the extent of compliance with the PRA Rules and Solvency II regulations as part of our procedures on the audit of the Solvency and Financial Condition Report.

Secondly, the Company is subject to many other laws and regulations, where the consequences of non-compliance could have a material effect on amounts or disclosures in the Solvency and Financial Condition Report, for instance through the imposition of fines or loss of regulatory approval to underwrite insurance contracts. We identified the following areas as those most likely to have such an effect: liquidity regulations, anti-bribery and certain aspects of company legislation, including taxation, recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Solvency and Financial Condition Report, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Solvency and Financial Condition Report, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit

procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## **Other Information**

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Directors for the Solvency and Financial Condition Report**

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report**

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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

A fuller description of our responsibilities is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **Report on Other Legal and Regulatory Requirements**

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

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

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

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



*Karen Orr*  
*for and on behalf of KPMG LLP*  
*Chartered Accountants*  
*15 Canada Square, London, E14 5GL*  
*8<sup>th</sup> April 2021*

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

### **Solo internal model**

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

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin
- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measures on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template [S.28.01.01 / S.28.02.01]
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

## Summary

The Directors submit their SFCR for MIICL for the year ended December 31, 2020.

SII is an EU Directive aimed at providing a harmonised insurance regulatory regime for the European insurance industry in order to promote policyholder protection and a more resilient sector. It became effective from January 1, 2016. This SFCR comprises MIICL's solo submission in accordance with those rules.

Under SII, an insurer can apply for use of an internal model ("IM") in order to calculate the amount of capital it needs to hold, in recognition of the risks it faces. Insurers that do not use an IM have their capital requirements set using the standard formula ("SF").

On December 5, 2015, the PRA granted MIICL approval to use a full IM to calculate its capital requirements and this approval was effective from the implementation of SII on January 1, 2016.

As at December 31, 2020 MIICL had eligible SII capital resources of \$635.4m (2019, \$638.9m) (Section E.1.5) against a Solvency Capital Requirement ("SCR") of \$254.1m (2019, \$265.0m) (Section E.2), representing a coverage ratio of 250.1% (2019, 241.1%). 2019 SCR values in the table below represent the SCR based upon the December 31, 2019 SII Balance Sheet.

<b>Summary of Solvency Coverage</b>	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
SII Eligible Own Funds	635,381	638,863
SCR	254,100	265,000
MCR	114,345	119,250
<b>Surplus over SCR</b>	<b>381,281</b>	<b>373,863</b>
Surplus over MCR	521,036	519,613
<b>Coverage over SCR</b>	<b>250%</b>	<b>241%</b>
Coverage over MCR	556%	536%

## A. Business and Performance

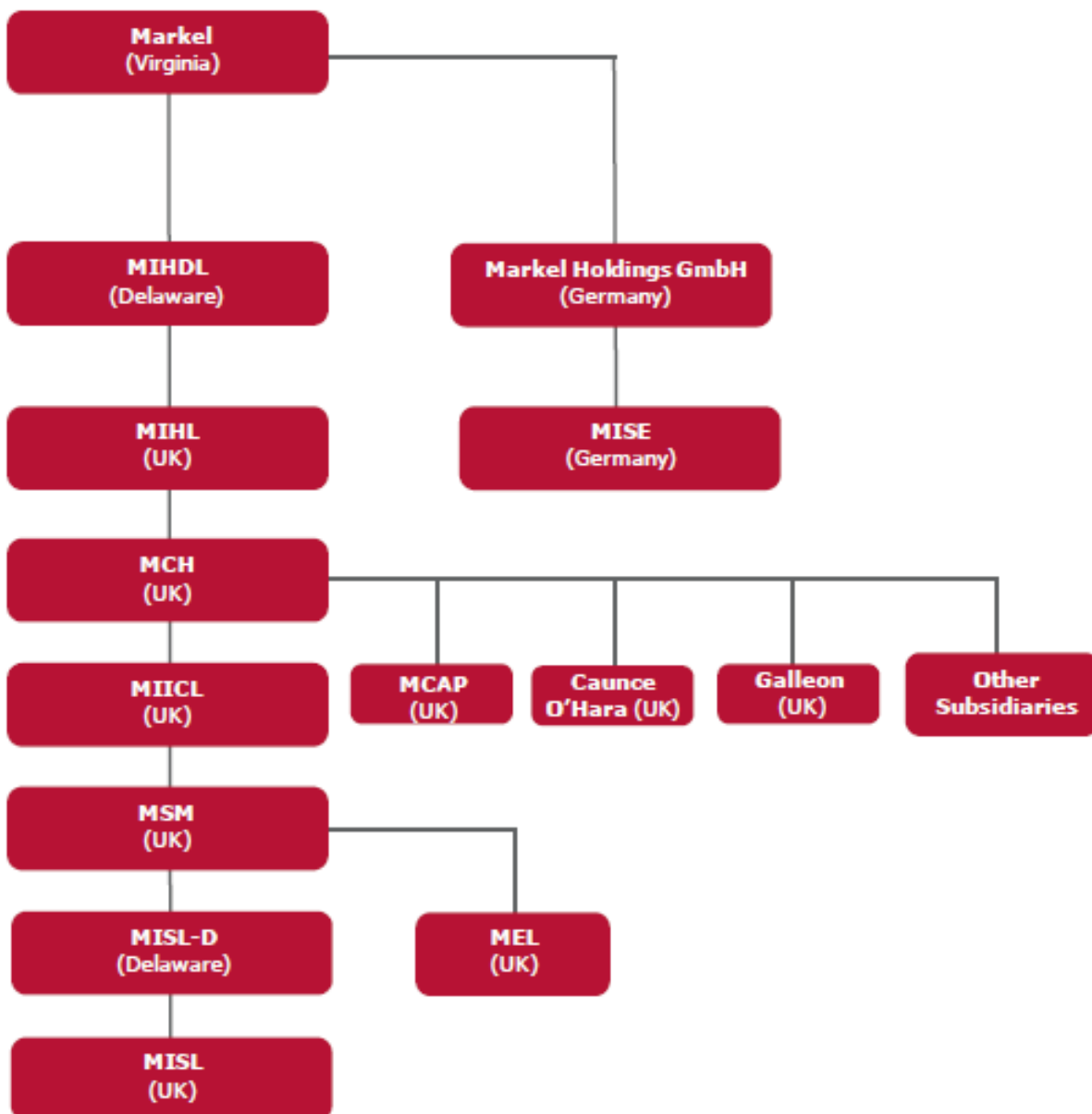
### A.1 Company Information

<b>Name &amp; Legal Form</b>	Markel International Insurance Company Limited 20 Fenchurch Street London EC3M 3AZ
<b>Registered Number</b>	0966670
<b>Legal Entity Identifier</b>	549300HRELQKZ62ZP423
<b>Supervisory Authorities</b>	Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA  Financial Conduct Authority ("FCA"), 12 Endeavour Square, London E20 1JN
<b>External Auditor</b>	KPMG LLP 15 Canada Square London E14 5GL
<b>Immediate Parent</b>	Markel Capital Holdings Limited ("MCH")
<b>Ultimate Holding Company</b>	Markel Corporation ("Markel")
<b>Subsidiaries</b>	Markel Syndicate Management Limited ("MSM") (100% owned by MIICL) Markel International Services (Delaware) Limited ("MISL-D") (100% owned by MSM) Markel Europe Limited ("MEL") (100% owned by MSM) Markel International Services Limited ("MISL") (100% owned by MISL-D)

#### A.1.1 Group Structure

MIICL is a subsidiary of MCH, which is incorporated in the UK. Its ultimate holding company is Markel, which is incorporated in Virginia, in the United States and its ultimate European Economic Area ("EEA") parent company is Markel International Holdings Limited ("MIHL"). MIHL is the EEA parent company of both MIICL and Markel Syndicate 3000 ("the Syndicate").

Set out below is a simplified extract of the group structure for Markel showing MIICL, MCH, MIHL and Markel.



**All holdings, with the exception of certain companies within Other Subsidiaries, are 100%.**

**Please refer to the Glossary for Company name definitions.**

### A.1.2 Group Supervision

The PRA is supervisor of MIICL and MSM and, under SII, is the group supervisor of Markel as the US is not an equivalent country for SII group supervision purposes. However, on MIICL December 17, 2015, the PRA granted MIICL a waiver modifying Rule 20.1 of the PRA handbook (Group Supervision), allowing it to apply "other methods" in accordance with the SII Directive. The PRA published a modification by consent to Solvency II Group Supervision rules 20.1 and 20.2 for firms with US parents. MIICL applied and on September 18, 2018 was granted such a direction. Under the terms of the direction, the Company is required to provide a copy of Markel's Own Risk and Solvency Assessment ("ORSA") within 1 month of it being reported to the US supervisor, the Illinois Department of Insurance.

## **A.2 Business**

MIICL's principal activity is the transaction of general insurance from its office in London and its branch operation in Switzerland, in addition to overseas operations in Dubai. Markel (UK) Limited also underwrites on behalf of the Company through its UK branch network.

From November 28, 2017, the Company has fully reinsured all business written by EC Insurance Company Limited ("ECIC"), a fellow subsidiary of MCH. On March 5, 2020 and March 6, 2020 the High Courts of the UK and Jersey respectively granted approval for a part VII transfer whereby the Company assumed all insurance obligations of ECIC effective March 20, 2020.

MIICL holds Surplus Lines Licences and is an accredited reinsurer in most US States. It is also able to underwrite general insurance and reinsurance in a number of other overseas territories.

The Company operates nine underwriting units, namely Marine; Energy; Professional and Financial Risks; Equine and Livestock; Cyber; Trade Credit, Political Risk and Surety; Reinsurance; Markel Specialty and National Markets. The Company exited Latin America during the first quarter of 2021.

### **A.2.1 Marine**

Coverage includes primary and excess coverage for liability, hull and war, terrorism, specie and cargo risks worldwide, handling a comprehensive range of risks for multinational companies, national industries and private individuals.

The liability account offers a range of traditional marine liability cover as well as ports and terminals, marine trades, and energy onshore and offshore coverage. The hull account covers physical damage to ocean-going tonnage, yachts, building risks and mortgagee's interest. The war account offers coverage for marine and aviation war across all vessel types and tonnages. The terrorism account covers physical damage resulting from terrorism, war and political violence. The specie account includes a range of coverage for fine art, specie, jewellers' block, and cash in transit, on a worldwide basis. The cargo account comprises a broad portfolio of transit and storage risk covering most industries on a global basis.

### **A.2.2 Energy**

Energy offers coverage on a worldwide basis for all aspects of upstream, downstream and midstream oil and gas activities. Coverage includes business interruption or loss of production income, construction of energy related structures, control of well and physical damage to installations. The team also offers coverage for renewable energy sources including coverage for the full life-cycle of onshore and offshore wind farms and solar photo voltaic installations, from procurement to construction to the completed operations.

### **A.2.3 Professional and Financial Risks**

The Professional and Financial Risks team provides cover on a worldwide basis. The team underwrites professional indemnity, entertainment, financial institutions insurance, commercial directors' and officers' liability ("D&O"), financial technology cover, and technology and media cover.

The professional indemnity account services most core, regulated and miscellaneous professions which include architects and engineers, insurance brokers, recruitment agents, and educational establishments. The entertainment team writes a broad book of film and media insurance, including commercial producers indemnity, film insurance, production package and more. Financial institutions insurance can provide cover on a stand-alone basis or as a blended package to include bankers blanket bond, professional indemnity and D&O, depending on the client's requirements. Commercial D&O offer market leading products which provide a wide range of coverage to ensure protection for directors and officers of companies of all types and sizes. Financial technology provides cover for a range of fintech companies, including professional liability, directors' and officers' liability, theft and cyber liability, and loss. Technology and media provides modular cover for clients in the technology and telecommunications field, specialising in media, film, television, information technology and more.

### **A.2.4 Equine and Livestock**

This team underwrites equine and livestock insurance, offering a wide portfolio of products to suit a broad range of risks, from large stud farms to individual horses and covering all uses across farm, zoo and other animal interests.

The equine account offers a wide portfolio of products including bloodstock and equine liability to suit a broad range of risks, from large stud farms to individual horses. The livestock account provides individually tailored insurance solutions for the largest livestock companies, having operations in several countries. Coverage includes cattle, zoos and aquaria, poultry, pigs and animals in transit.

#### **A.2.5 Cyber**

The cyber account targets a wide spectrum of industries from professional services to healthcare, offering specialist cover for both first and third party losses on a modular basis. The cyber account covers a variety of exposures including cyber and privacy liability, extortion costs cover, and system and data rectification and mitigation costs.

#### **A.2.6 Trade Credit, Political Risk and Surety**

This team underwrites trade credit, political risk and contract frustration, and surety insurance, protecting sellers worldwide from the risk of buyer insolvency and other forms of counterparty risk.

The trade credit account coverage includes prepayment cover, insolvency and default, captive reinsurance, syndicated co-insurance solutions and financial institutions. Policies are designed to provide clients with certainty of cover and are underwritten with the aim of establishing a long-term partnership with the insured. The political risk and contract frustration account has a broad range of coverage including insolvency or default by either a public or privately owned entity, licence cancellation, aircraft and vessel repossession, mortgage rights insurance and currency inconvertibility and exchange transfer. The surety account coverage includes both contract bonds and commercial bonds.

#### **A.2.7 Reinsurance**

This unit includes international casualty treaty and property treaty business. During 2020 the Company ceased underwriting North American property treaty business.

The casualty treaty team underwrites a diversified account, including general liability, professional indemnity, directors' and officers' liability and medical malpractice. The portfolio is worldwide, excluding United States domiciled business. Property treaty reinsurance is provided on an excess of loss and proportional basis for per risk and catastrophe exposures. The property treaty account covers a wide diversity of exposures internationally and can tailor this to meet the specific needs of cedants.

#### **A.2.8 Market Specialty**

Market Specialty is focused on large accounts and complex risks, providing casualty, professional liability, marine and property coverage for both privately-held companies and publicly-traded companies.

#### **A.2.9 National Markets**

The National Markets unit offers a full range of professional liability products, including professional indemnity, directors' and officers' liability and employment practices liability. In addition, coverage is provided for small to medium-sized commercial property risks on both a stand-alone and package basis. The branch offices provide insureds and brokers with direct access to decision-making underwriters who possess specialised knowledge of their local markets. The unit also underwrites certain niche liability products such as coverages for social welfare organisations. It also sells and underwrites insurance products which provide protection against legal expenses and other professional fees incurred by clients as a result of legal actions and HMRC investigations, and also provides legal, human resources, and specialist tax consultancy services.

#### **A.2.10 Latin America**

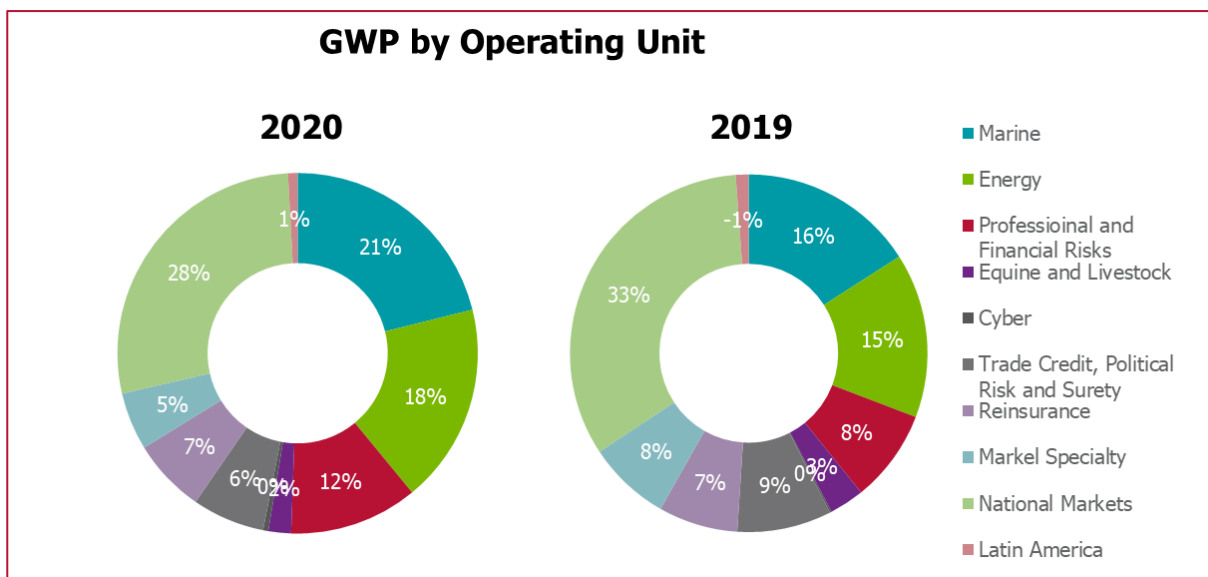
The Company's operations in Latin America transacted reinsurance business on a range of product lines including accident and health, property and surety. The Company has scaled back its operations in Latin America and was only writing surety business during 2020, and subsequently exited this market during the first quarter of 2021.

### A.3 Business during 2020

#### A.3.1 Analysis of business by operating segment and SII line of business

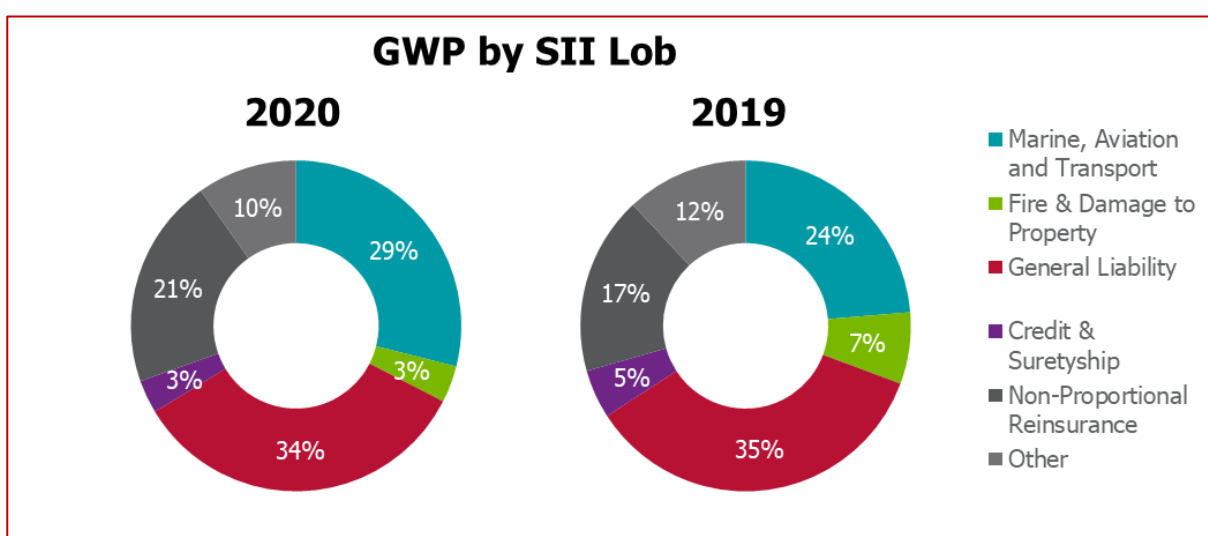
MIICL reported Gross Written Premiums ("GWP") of \$707.9m (2019, \$548.9m) in its Financial Statements for the year ended December 31, 2020. These Financial Statements were prepared on a Generally Accepted Accounting Practice in the UK ("UKGAAP") basis in accordance with Financial Reporting Standard 102 and 103 ("FRS102" and "FRS103").

Set out below is a summary of GWP by operating unit.



SII requires business to be categorised into 16 standardised lines of business ("LOB"). The management reporting classes within each operating unit represent the homogeneous risk groups and these largely map to SII LOBs on a 'one to one' or 'many to one' basis.

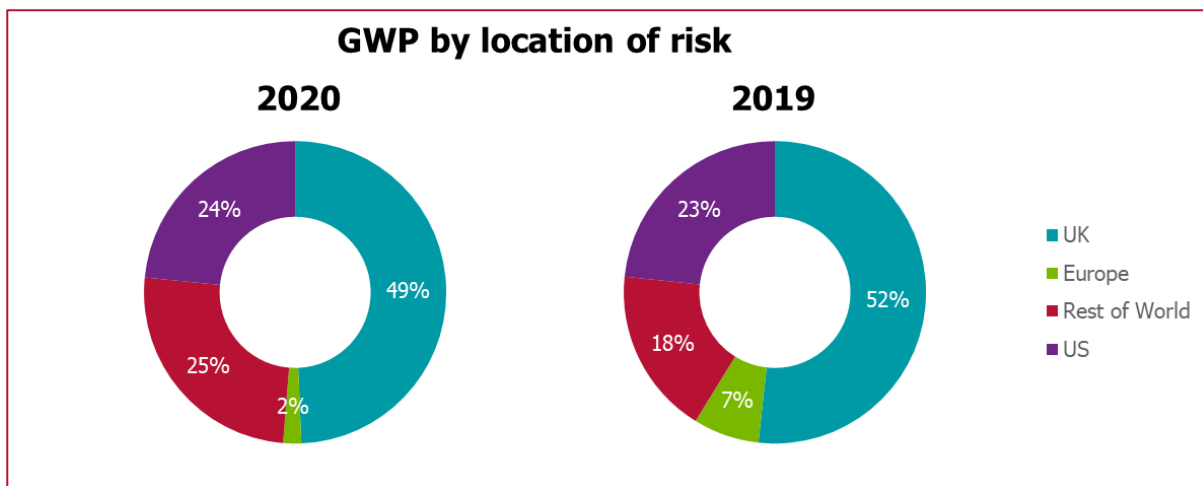
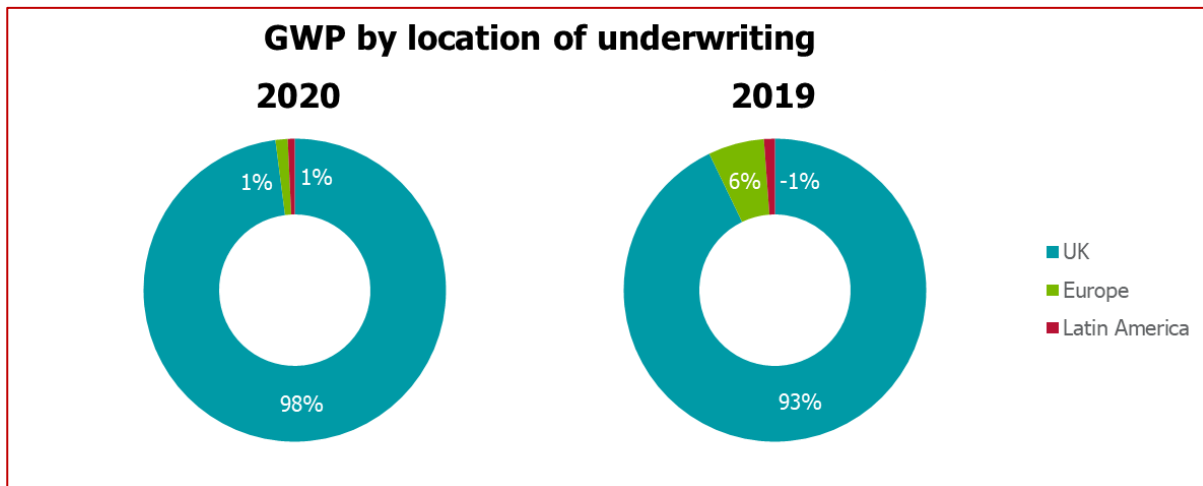
Set out below is a summary of GWP by SII LOB (further analysis is provided in Appendix 2). The "Other" LOB primarily comprises Legal Expenses, Miscellaneous Financial Loss and Income Protection business.



### A.3.2 Analysis by geographic area

The majority of MIICL’s business is written in the UK, with additional business written at its branch operations in Latin America and Switzerland and, during the first three months of 2019, at its European branches, whilst the location of risks is in various different countries.

Set out below is a summary geographic analysis of the location of underwriting and location of risk for MIICL’s GWP.



### A.3.3 COVID-19

The COVID-19 pandemic has caused unprecedented social and economic disruption, increased volatility of capital markets and intervention by various governments and central banks around the world. The Company continues to monitor and respond to the global COVID-19 outbreak, in particular the impact on claims that are expected to arise on business previously written. COVID-19 impacted the result of the Company with additional gross losses of \$130.8m, net of reinsurance \$108.0m, adding 21.1% to the combined ratio. The losses were primarily a result of business interruption in our Social Welfare book, from the enforced lockdown, and include the estimated impact of the UK Supreme Court Judgement relating to the FCA’s business interruption court proceedings, handed down on January 15, 2021. Additionally, cancelled events impacted our Contingency book and as part of the continued review of our underwriting appetite, the decision was taken during the year to exit the Contingency class of business.

## A.4 Changes during 2020

### A.4.1 Classes of Business

For 2020 there were no material additions to the classes of business previously offered. However, steps were taken to improve overall profitability, including placing Contingency, Direct Personal Accident and Reinsurance Property into run-off.

#### **A.4.2 ECIC Part VII Transfer**

On March 5, 2020 and March 6, 2020 the High Courts of the UK and Jersey respectively granted approval for a Part VII transfer whereby MIICL assumed all insurance obligations of ECIC effective March 20, 2020. At the transfer date, the ECIC legal entity had gross technical provisions of \$43.0m and recoveries of the same amount, due to a whole account quota share with MIICL. The external reinsurance recoveries totalled \$30.4m. The net impact to MIICL from executing the Part VII transfer was \$nil.

#### **A.4.3 Distribution**

Distribution continues to be an important part of the future growth plans for Markel International ("MINT"). Across a number of divisions we have sought to increase collaboration with other entities within the Markel Group. Technology will also play a significant role in changing distribution and there are a number of initiatives to ensure we are able to distribute our products across a variety of channels and offer "slicker" technology solutions.

#### **A.4.4 International Development**

There were no significant international developments during 2020. However, as stated above, MIICL continues to seek to grow and develop its business and international presence where there are perceived opportunities for profitable development.

#### **A.4.5 Entity Quota Share**

MIICL underwrites a reinsurance contract with the Syndicate, the "Entity Quota Share" ("EQS"), whereby some of the Syndicate's natural catastrophe risk is reinsured by MIICL. Our IM was used to consider various permutations and the resulting capital requirements and exposure levels from potential variations. This contract has been amended over time; during 2016 and 2017 a limit was introduced and the franchise was reduced. This increased the potential losses for the Company (decreasing for \$3000) at the 1 in 10 Net AEP level and decreased them (increased for the Syndicate) at the 1 in 250 Net OEP and Net AEP levels. The structure was adjusted again for 2020 and is now set with a 65% reinsurance of the Syndicate's Property Treaty Nat Cat Risk, subject to a \$10m franchise and a \$30m limit.

### **A.5 Underwriting Performance**

#### **A.5.1 Analysis by SII Line of Business for the year ended December 31, 2020**

Quantitative Reporting Template ("QRT") S.05.01.02 (Appendix 2) provides a detailed analysis of the UKGAAP underwriting result for the year ended December 31, 2020 by SII LOB. Set out below is a summary of the key classes.

As discussed in MIICL's Financial Statements, an underwriting loss of \$72.8m (2019, loss of \$0.7m) was reported for the year. This represents a combined ratio of 114.3% (2019, 100.2%). The underwriting result has been adversely impacted by \$108.0m of losses in relation to the COVID 19 global pandemic, and \$9.0m of losses in relation to natural catastrophes in 2020 (hurricane Laura, hurricane Zeta and Derecho storms). Partially offsetting this was a \$5.4m improvement in relation to 2019 and prior natural catastrophes. While none of these catastrophe losses individually or in total exceeded the Company's risk appetite for market events of this size, they contributed 21.8% to the combined ratio.

These losses were offset by a release from prior year reserves of \$48.4m (2019, \$65.8m). This release is a result of more favourable claims development than originally anticipated and the work of the Claims department in dealing with claims in an expeditious manner.

2020	Marine, Aviation, Transport \$'m	Fire & Damage to Property \$'m	General Liability \$'m	Proportional RI \$'m	Other \$'m	Total \$'m
Gross written premiums	204.9	25.4	239.1	146.1	92.3	707.9
Net written premiums	146.5	23.2	197.8	126.3	84.8	578.6
Net earned premiums	121.0	23.8	172.3	104.2	89.7	511.0
Underwriting result before expenses	58.5	(61.7)	87.4	33.4	16.8	134.4
Expenses						(207.3)
<b>Underwriting result</b>						<b>(72.8)</b>
Loss and LAE ratio	51.7%	358.9%	49.3%	67.9%	81.2%	73.7%
Expense ratio						40.6%
<b>Combined ratio</b>						<b>114.3%</b>

2019	Marine, Aviation, Transport \$'m	Fire & Damage to Property \$'m	General Liability \$'m	Proportional RI \$'m	Other \$'m	Total \$'m
Gross written premiums	130.0	38.4	192.9	95.7	91.8	548.9
Net written premiums	88.1	32.6	148.3	85.4	85.0	439.4
Net earned premiums	79.5	49.6	134.3	81.7	79.7	424.8
Underwriting result before expenses	51.3	27.9	91.1	(10.3)	39.1	199.0
Expenses						(199.7)
<b>Underwriting result</b>						<b>(0.7)</b>
Loss and LAE ratio	35.5%	43.8%	32.2%	112.6%	50.9%	53.1%
Expense ratio						47.1%
<b>Combined ratio</b>						<b>100.3%</b>

### A.5.2 Analysis by Geographic Area

An analysis of the underwriting result by country is provided in QRT S.05.02.01 (Appendix 3). In accordance with the Commission Implementing Regulation (EU) 2015.2452 ("Commission Implementing Regulation"), the country selection has been prepared on a mixture of location of risk and location of underwriting:

- 1. By location of risk:** for Income Protection, Fire & Damage to Property, Credit and Suretyship
- 2. By location of underwriting:** for MAT, GL and Legal Expenses
- 3. By location of cedant:** for all assumed reinsurance

2020	UK & Other \$'m	Europe \$'m	Colombia \$'m	Total \$'m
Gross written premiums	690.7	11.0	6.2	707.9
Net written premiums	563.7	9.1	5.8	578.6
Net earned premiums	495.4	8.7	7.0	511.0
Underwriting result before expenses	134.0	6.6	(6.2)	134.4
Expenses				(207.3)
<b>Underwriting result</b>				<b>(72.8)</b>

<b>2019</b>	<b>UK &amp; Other \$'m</b>	<b>Europe \$'m</b>	<b>Colombia \$'m</b>	<b>Total \$'m</b>
Gross written premiums	496.6	37.5	14.8	548.9
Net written premiums	399.5	25.2	14.7	439.4
Net earned premiums	379.4	20.4	25.0	424.8
Underwriting result before expenses	174.2	11.6	13.2	199.0
Expenses				(199.7)
<b>Underwriting result</b>				<b>(0.7)</b>

## **A.6 Investment Performance**

### **A.6.1 Investment Return**

The Company's business strategy recognises the importance of both consistent underwriting and operating profits and superior investment returns to build shareholder value. The Company relies on sound underwriting practices to produce investable funds while managing Underwriting Risk. The majority of investable assets come from premiums paid by policyholders. Policyholder funds are invested in high-quality corporate and municipal bonds with relatively short durations. The balance, comprising shareholder funds, is available to be invested in equity securities, which, over the long run, have produced higher returns relative to fixed maturity investments. When purchasing equities, the Company seeks to invest in profitable companies, with honest and talented management that exhibit reinvestment opportunities and capital discipline at reasonable prices. The intention is to hold such investments over the long term.

Investment performance is measured by analysing net investment income, net realised investment gains and the movement in net unrealised gains on investments. The quality of the investment portfolio is not lowered in order to enhance or maintain yields. The Company focuses on long term total investment return, understanding that the level of realised and unrealised gains or losses may vary from one period to the next.

In accordance with FRS102, the Company reports its bonds at amortised cost in its Financial Statements, whereas equities are recognised and measured at fair value through profit and loss. No investment gains or losses are recognised directly in equity.

SII requires investments to be measured at fair value. Set out below is a summary of the investment return including market value movements on bonds. Investment returns are stated net of investment expenses of \$5.0m (2019, \$5.7m). Investment return percentages are based on income divided by the average of assets held.

<b>2020</b>	<b>MV \$'000</b>	<b>Return \$'000</b>	<b>Return %</b>
Cash/Short Term	502,044	282	0.1%
Equities	292,179	33,854	10.6%
Bonds	676,674	13,371	2.1%
<b>Total</b>	<b>1,470,897</b>	<b>47,507</b>	<b>3.4%</b>

<b>2019</b>	<b>MV \$'000</b>	<b>Return \$'000</b>	<b>Return %</b>
Cash/Short Term	295,473	1,110	0.4%
Equities	343,720	84,056	27.3%
Bonds	598,632	23,807	3.5%
<b>Total</b>	<b>1,237,825</b>	<b>108,972</b>	<b>8.6%</b>

Set out below is an analysis of the key drivers of the investment return.

	2020	2019
	\$'000	\$'000
Net investment income	15,762	21,630
Net realised gains	60,870	36,426
Net unrealised gains and (losses)	(29,125)	50,916
<b>Total investment return</b>	<b>47,507</b>	<b>108,972</b>

The total investment return of 3.4% for the year ended December 31, 2020 (2019, 8.6%) was primarily driven by realised gains on the equity portfolio and investment income, partially offset by unrealised losses on the equity portfolio.

### A.6.2 SII Investment Categorisation and Disclosures

The Commission Implementing Regulation sets out required investment categorisation (these are discussed in more detail in Section D.2.4). SII also requires investments to be disclosed at their market value plus accrued interest. Set out below is a summary of the investment categorisations reported on the SII Balance Sheet (Appendix 1).

2020	MV	Accrued Interest	SII Value
	\$'000	\$'000	\$'000
Equities	292,179	96	292,275
Government Bonds	344,853	2,710	347,563
Corporate Bonds	163,651	1,873	165,523
Collateralised Securities	167,789	381	168,170
Collective Investment Undertakings*	204,211	0	204,211
Deposits other than cash equivalents	0	0	0
Cash and cash equivalents	298,214	0	298,214
<b>Total</b>	<b>1,470,897</b>	<b>5,061</b>	<b>1,475,956</b>

2019	MV	Accrued Interest	SII Value
	\$'000	\$'000	\$'000
Equities	343,719	378	344,099
Government Bonds	271,160	3,102	274,262
Corporate Bonds	165,529	1,980	167,509
Collateralised Securities	161,573	370	161,943
Collective Investment Undertakings*	53,304	0	53,304
Deposits other than cash equivalents	0	0	0
Cash and cash equivalents	242,539	0	242,539
<b>Total</b>	<b>1,237,825</b>	<b>5,831</b>	<b>1,243,656</b>

\*Investments in Collective Investments Undertakings comprise Money Market Funds.

### A.6.3 Investment Securitisation

As at December 31, 2020 the Company held \$168.2m in securitised assets (2019, \$161.9m), comprising:

- \$100.2m (2019, \$96.6m) of Residential Mortgage Backed Securities ("RMBS") issued by US Government Sponsored Enterprises ("US GSEs") (Federal Home Loan Mortgage Association ("Freddie Mac") and Federal National Mortgage Association ("Fannie Mae") and US Agencies (Government National Mortgage Association ("Ginnie Mae"))).
- \$62.4m (2019, \$58.9m) of Commercial Mortgage Backed Securities ("CMBS") issued by Freddie Mac, Fannie Mae and Ginnie Mae.
- \$5.5m (2019, \$6.4m) of CMBS from corporate issuers.

### **A.7 Post Balance Sheet Events**

There have been no material events since the reporting date.

### **A.8 Performance of other activities**

Not applicable.

### **A.9 Any other information**

From November 28, 2017, the Company has fully reinsured all business written by EC Insurance Company Limited ("ECIC"), a fellow subsidiary of MCH. On March 5, 2020 and March 6, 2020 the High Courts of the UK and Jersey respectively granted approval for a part VII transfer whereby the Company assumed all insurance obligations of ECIC effective March 20, 2020. A summary of the assets and liabilities transferred is below.

	<b>\$'000</b>
Reinsurers' share of claims outstanding	27,011
Debtors arising out of direct and reinsurance operations	(3,662)
Deferred acquisition costs	8
<b>Total Assets</b>	<b>23,357</b>
Claims outstanding	23,357
<b>Total Liabilities</b>	<b>23,357</b>

## B. System of Governance

### B.1 General information on the system of governance

#### B.1.1 The Board

As at 1 January 2021 the MIICL Board consisted of 9 Board Directors, including 4 Non-Executive Directors one of whom is the Chair of the Board. During 2020 the following changes occurred in respect of directors:

1. Simon Barrett, Finance Director, resigned from Markel and was replaced by Andy Davies who is now Chief Operations Officer and Chief Financial Officer.
2. Ian Marshall, Non-Executive Director, retired from the Board.
3. Wai Au was appointed as a Non-Executive Director.
4. Kalpana Shah was appointed as a Non-Executive Director.
5. John Spencer replaced Ralph Snedden as Chair of the Board.
6. Ralph Snedden retired as a Non-Executive Director.
7. Paul Jenks retired as an Executive Director.

The main purposes of the Board include:

- Ensure the Company has an effective and appropriate governance structure;
- Ensure the culture of Markel, as required by the 'Markel Style' and in Markel's 'Code of Conduct', is reflected in the activities of the Company at all levels and in all locations;
- Set the strategy and monitor the performance of the Company;
- Take reasonable care to maintain a clear and appropriate apportionment of significant responsibilities among its Directors and senior managers in such a way that (1) it is clear who has which of those responsibilities and (2) the business and affairs of the firm can be adequately monitored and controlled by the Directors, relevant senior managers and governing body of the firm; and
- Meet the standards required for SII Firms by the PRA Handbook, including the 'Fundamental Rules', and the FCA handbook, including the 'Principles for Business'.

The President of MINT (William D Stovin) has responsibility for the apportionment of significant responsibilities to Directors and senior managers for overseeing the establishment and maintenance of systems and controls appropriate to the business and the company's performance of its obligations under the Senior Manager and Certification Regime.

The Board has identified the officers who hold each relevant Senior Manager Function (details are held in the Financial Services Register) and has approved the allocation of PRA and FCA Prescribed Responsibilities.

#### B.1.2 Board Reporting Committees

MIICL's governance arrangements include the following key committees:-

**Risk & Capital Committee** - The purpose of the Risk & Capital Committee ("R&CC") is to assist the Board in its oversight of MIICL's Risk Management Strategy and Risk Management Framework, and the process by which the Company's SCR is assessed and communicated to its regulator and other stakeholders. Its terms of reference include the following key duties:

- Approve the Enterprise-wide Risk Management ("ERM") framework established by management and monitor its effectiveness, on a continuous basis, on behalf of the Board.
- Ensure that the Risk Register and its components are maintained and updated.
- Oversee the governance and operation of the IM.
- Review and challenge the ORSA reports.
- Oversee and challenge the design and execution of an agreed set of stress and scenario tests.
- Consider emerging risks perceived to be potentially significant.

**Audit Committee** - The purpose of the Audit Committee is to assist the Board by overseeing the Internal Audit function and the relationship with the external auditors. Its terms of reference state that the Committee shall:

- Discuss the nature and scope of the annual external audit prior to work commencing and review the auditor's management letter and management's response.
- Review MIICL draft Financial Statements.
- Monitor, review and assess the effectiveness of the Internal Audit function in the context of MIICL's overall risk management system.

- Consider and approve the remit of the Internal Audit function, ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.
- Ensure the Internal Audit function has adequate standing and is free from management or other restrictions.
- Receive and approve Internal Audit reports, including the findings and actions.
- Consider and approve the annual Internal Audit Plan.
- Review and approve changes to the Internal Audit Policy.

**Reserving Committee** - The main purpose of the Reserving Committee is to assist the Board in their implementation of MIICL's Reserving Policy. Its remit includes:

- Review overall reserve movements as presented at the Combined Ratio Meetings ("CRM") and actions arising therefrom.
- Review the comparison of 'actuarial funds' to 'held funds' and agree closing held reserve position, including prudential margin as reported in the year-end Financial Statements.
- Review external reports and communications (Statement of Actuarial Opinion ("SAO"), reserving related regulatory communication and external actuarial reviews).
- Recommend the level of reserves to be held to the Board.

**Finance Committee** - The purpose of the Finance Committee is to assist the Board in its review and approval of certain MIICL statutory and regulatory returns. The Committee also monitors the performance of MIICL's investment portfolio.

**Remuneration Committee** - The main purpose of the Remuneration Committee is to ensure the remuneration structure (including bonuses), both for employees and Directors, is consistent with the Company's Remuneration Policy, UK regulations and good practice, and that they promote positive behaviour and a strong and appropriate conduct culture.

**Nominations Committee** – The main purpose of the Nominations Committee is to provide governance and oversight of succession and recruitment of directors for the MIICL and MSM Boards, including Non-Executive Directors. The Committee's Terms of Reference include oversight of Board composition, director succession planning and recruitment and Board performance.

**Outsourcing Committee** – This is a new Board Committee in 2021. Its main purpose is to oversee and monitor performance and costs of MINT outsourcing partners and shared services. This includes oversight of MINT's Outsourcing regime, compliance with outsourcing legal requirements, review and monitoring costs and effectiveness of shared services, and resilience of outsourcing partners.

**Executive Committee** – The purpose of the Executive Committee is to manage the day-to-day activities of Markel's International division and to undertake tasks delegated from the MIICL and MSM Boards. The Committee's remit includes (among other things) making decisions and recommendations on projects and strategic initiatives, oversight and execution of business performance and operations, oversight and implementation of people, culture and communications initiatives, ensuring control, coordination and monitoring of risk and controls, review and oversight of legal, regulatory, compliance and governance matters, business development, and crisis management. The Executive Committee is not authorised to make or ratify decisions on matters reserved for the MIICL or MSM Boards.

### B.1.3 Key Functions

The Company has identified the roles which it considers to be a Key Function performed by a Key Function Holder. This includes people heading the Internal Audit, Risk, Compliance and Actuarial functions, some of whom are also Senior Managers under the Senior Managers & Certification Regime.

**Internal Audit** – The primary focus of the Head of Internal Audit is to manage the Internal Audit function so as to provide the Audit Committee and management with an independent assessment of the effectiveness and efficiency of risk management, control and governance processes within MIICL's business operations. The Internal Audit function may also assist management by performing other audit activities and participating, where required, in discussions on the design of internal controls, provided these other activities do not conflict with the primary focus.

**Compliance** – The main responsibility of the Head of Compliance is to provide oversight, reporting to the governing body, on the status of the Company’s compliance against its stated desire to meet and exceed the standards required by its regulators. The responsibilities of the role include advising the Board on compliance with the laws, regulations and administrative provisions adopted pursuant to the SII Directive and other relevant regulatory requirements, to assess the possible impact of any significant changes in the legal environment on the operations of MIICL and the adequacy of the measures adopted to prevent non-compliance, and to deliver the annual Compliance Plan.

**Risk** – The main responsibilities of the Chief Risk Officer are to put in place and maintain effective ERM comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks to which the Company is or could be exposed, and their interdependencies.

**Actuarial** – The main responsibility of the Head of Actuarial is to lead MIICL’s Actuarial team and ensure that its stated objectives are met. The responsibilities of the role include pricing, reserving, overseeing the actuarial contribution to capital (including IM development, internal and regulatory reporting), overseeing Catastrophe Modelling and aggregation, and contributing to the effective implementation of the risk management of the business, including contributing to the ORSA.

#### **B.1.4 Remuneration Policy and Practices**

##### **Principles**

MIICL’s remuneration policy and practice is consistent with its business and risk strategy, risk profile, objectives, values, risk management practices, and long-term interests and performance and does not reward individuals for excessive risk taking.

Where there are country specific remuneration practices, they are consistent with laws and regulations applicable in those jurisdictions.

There is generally no fixed (guaranteed) element in bonus arrangements. In exceptional circumstances, primarily relating to recruitment, a bonus may be fixed (guaranteed) for a short period after joining to compensate for foregone bonus from prior employment.

Underwriting bonuses are adjusted for actual experience. Our most Senior Underwriters receive part of their bonuses in restricted stock awards. There are no golden parachutes.

Directors and employees have written Contracts of Employment and bonus rules are agreed by senior management and communicated on an annual basis.

The remuneration of certain Board Directors is linked to the combined ratio of MINT and the underwriting bonuses are linked to relevant divisional underwriting performance. It is possible that the variable component of remuneration for certain Board Directors and for underwriters may be greater in a year than their fixed component. For the other Board Directors and non-underwriting employees the variable component of their remuneration will be less than the fixed component of their overall remuneration, other than in very specific circumstances which would require exceptional performance at both MINT and Markel.

##### **B.1.5 Performance Criteria**

Restricted stock in Markel may be awarded to certain senior executives which vests with a 3 year cliff vesting period.

Bonuses are paid on a discretionary basis based upon specific performance objectives and/or Divisional, MINT and Markel’s profitability as assessed independently by the Chief Actuary & Director of Underwriting Operations of the Company.

**Directors** – Unless treated as an underwriter, bonuses of Executive Directors are aligned to MINT and Markel’s business strategy, by a focus on MINT’s profitability and Markel growth in book value. There is no fixed component to a Director’s bonus. The remuneration of Non-Executive Directors does not include any bonus arrangement.

**Underwriters** - Underwriter bonuses are aligned to Markel's business strategy, with an emphasis on sustainable underwriting profitability explicitly linked to annual combined ratio targets.

**Non-underwriting employees** - The remuneration package for non-underwriting employees includes a bonus potential expressed as a percentage of their annual salary which they can earn as a bonus for any calendar year. The majority of their bonus potential depends on the extent to which they fulfil their job role and goals, and how they display Markel competencies.

**Supplementary pension and early retirement schemes** - There are no supplementary pension schemes for Board members; Board members participate in the same pension schemes and in the same way as if they were an employee. Similarly, there are no early retirement schemes or arrangements for Board members which are not also available for employees, such as early retirement on grounds of ill-health.

#### **B.1.6 Material Transactions with Related Parties**

During the reporting period, the Company did not declare any dividends to its shareholder, MCH.

As referenced in Section A.7, a Part VII transfer of all EC Insurance Company policies took place from ECICL to MIICL during 2020.

There were no other material transactions with related parties during the reporting period with the shareholder, with persons who exercise a significant influence on the undertaking, or with members of the Company's Board.

### **B.2 Fit and proper requirements**

All Directors and all employees, whether or not they perform a key function, are recruited on the basis that their professional qualifications, knowledge, experience, management and/or technical competences and experience are adequate to enable sound and prudent management and that they are of good repute and integrity.

#### **B.2.1 Fit and Proper Assessment**

**At Recruitment** - A set of due diligence checks is performed at recruitment for everybody who comes on to MINT's payroll, and some additional checks are performed for Solvency II Staff; as defined by Article 275(2) of the Commission Delegated Regulation (EU) 2015/35 ('the Solvency II Regulation').

**Reassessment** - In certain circumstances the Human Resources Director, in conjunction with the Director of Legal, Regulatory & Compliance, has authority to instigate a formal review and to investigate whether a Director or other Solvency II Staff continues to meet the required standards to pass a Fit and Proper assessment.

**Annual reassessment** - Relevant due diligence checks are re-performed each year for all Solvency II Staff, including people in a Certification Function (Key Function Holders and Material Risk Takers who are not a Senior Manager). As part of the annual certification process we formally reassess whether people in Certification Functions remain Fit & Proper.

### **B.3 Risk management system including the Own Risk and Solvency Assessment**

#### **B.3.1 Risk Management**

The Risk Management Function is responsible for ensuring the risks MIICL faces are assessed, mitigated and reported in accordance with our risk strategy and appetite.

Furthermore, in line with its responsibilities under SII, it is also responsible for all aspects of MIICL's IM, including the governance, design, implementation, testing, validation, and documentation of the IM. The Risk Management Function is also responsible for formulating the ORSA for Board approval.

#### **B.3.2 ORSA**

The ORSA is "the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks MINT faces or may face, and to determine the own funds necessary to ensure that MINT's overall regulatory and economic capital requirements are met at all times."

An ORSA report is produced at least annually to summarise these processes so that a suitably knowledgeable external reviewer would be able to gain an understanding of MIICL’s risk and solvency assessment.

The report is owned by the Risk Management Function, with the Risk Management team responsible for co-ordinating its production. The report is agreed by the Board. The ORSA sets out the relationship between regulatory capital requirements and economic capital. Stress and scenario tests in the ORSA report test the risk profile against economic capital.

Economic capital is defined as the capital required to maintain MIICL’s rating. It consists of:

- Capital at a 99.5% confidence level on a value at risk measure basis
- An uplift to support MIICL’s credit rating.

Each quarter the R&CC and the Board are presented with a brief assessment by Risk Management of risk and solvency. The Board may determine at any time that a formal reassessment is required and may determine the type and content of report that this reassessment should take.

### B.3.3 IM Governance

The Board of MIICL is responsible for ensuring (on an ongoing basis) that the IM reflects our risk profile, is appropriate in design, and operates effectively. The two predominant mechanisms through which this is performed are IM Governance and Validation. An overview of these two areas follows below.

There are several groups within the MIICL Governance structure which have responsibilities over the IM.

Group / Committee	Role description
Board of MIICL	<ul style="list-style-type: none"> <li>• Ultimate owner of the IM and responsible for approving Major Model Changes and the quarterly model change report.</li> <li>• Responsible for ensuring adequate model governance (and effective operation), including the appropriateness of the design and operational details of the IM.</li> <li>• Responsible for ensuring they have confidence in the structure, and reliability of the IM.</li> <li>• Responsible for ensuring the model appropriately reflects MIHL’s risk profile, and is used by the business.</li> </ul>
R&CC	Responsible for: <ul style="list-style-type: none"> <li>• Oversight of the Risk Management Function (inc. IMGV).</li> <li>• Using the IM for managing risk within MIICL.</li> <li>• Considers selected IM issues if escalated by IMGV. N.B. These may be escalated directly to the Board.</li> </ul>
IM Governance and Validation Group (“IMGV”)	Delegated responsibility for: <ul style="list-style-type: none"> <li>• Ensuring the model is adequately designed.</li> <li>• Reviewing and approving (non-major changes) design decisions and model improvements.</li> <li>• Overseeing the validation process, prior to the Board receiving the Validation Report.</li> </ul>
Model Owners Group	<ul style="list-style-type: none"> <li>• Detailed review by Subject Matter Experts of model output.</li> <li>• Approval of certain approaches taken within the Model.</li> </ul>

These committees and groups are supported by key individuals and teams within MIICL in respect of the day to day roles and responsibilities over the IM. In particular the Chief Risk Officer is responsible for ensuring that issues are escalated appropriately according to the materiality of the issue. Each group/committee can decide whether to escalate the matter to a higher body.

There were no material changes to IM Governance during 2020.

### B.3.4 IM Validation

Overall responsibility for the Validation Process lies with the Risk Management Function, under the supervision of R&CC or an appropriate sub-group of R&CC but is ultimately overseen by the Board of MIICL. Day-to-day co-ordination of the Validation Process is the responsibility of the Risk Management team.

Our approach to validation is to ensure that MIICL has sufficient assurance that the IM is appropriate for MIICL's risk profile, and is sufficiently reliable that it can be used confidently to inform decision-making within the business. MIICL seeks to ensure that its IM is not materially deficient for these purposes. Failure to ensure such a standard could result in inappropriate decision-making, or undermine our risk management processes. It is also the purpose of our Validation Process to ensure that our model meets the required level of policyholder protection required under SII and is therefore also suitable for calculating our SCR.

Our IM Validation Process can be divided into two broad categories:

### **Annual testing**

Certain tests are performed each year, with the depth of testing being proportional to materiality. These are set out in detail in the Validation Test plan. Each annual exercise will consider materiality in its scope, i.e. that certain components have greater influence on our SCR and uSCR than others.

### **Risk Based testing**

In addition we undertake focused validation on particular areas using a risk based approach.

Together these processes constitute our "Validation Process". In order to be effective, the complete process requires a series of regular interactions between the Build, Validate, and Review phases; therefore the Validation Process is not necessarily a linear one, but rather enables feedback across all levels in order that a culture of continuous improvement can be maintained.

## **B.4 Internal control system**

Across Markel, management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with generally accepted accounting principles. Management does not expect that its internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

At MIICL, key controls over financial reporting have been identified and the owners of each control are asked to confirm that the control is in place and operating effectively. Internal Audit tests these key controls annually and reports to the Audit Committee.

MIICL's internal controls system has been designed to provide assurance to the Board and senior management that standards are being adhered to and risks managed. This includes the reporting and review processes through which management can detect any variance from planned or expected outcomes.

The Company's internal controls cover all aspects of its business. Naturally, there are aspects to internal control in addition to those surrounding financial reporting. Alongside each major area of risk, the controls that are used to mitigate the risk are also identified and monitored. Risk controls can be tools or techniques to proactively identify, manage or reduce risk and may involve the policies, standards, procedures and operations of MIICL. The effectiveness of these controls is also managed at the local level. The MINT Risk Register describes risk controls for each risk and identifies control ownership.

### **B.4.1 The Compliance Function**

The Compliance Function is a key function within the Internal Control System. The function's primary responsibility is to assess and oversee management control and mitigation of compliance risk exposure. Its key responsibilities are:

- To oversee and monitor the effectiveness of compliance and conduct management controls and to report to the Board/ Governing body on this responsibility and the Company's compliance risk profile.
- To advise senior management, committees and the Board on compliance with laws, regulations and administrative provisions adopted pursuant to the SII Directive.
- Assess of the possible impact of any changes in the regulatory environment on the operations of MIICL and the identification and assessment of compliance risk.
- Promote staff awareness of regulatory requirements and expectations, e.g. licensing, sanctions and other financial crime, conduct, competition and the regulatory environment.

- Monitor actions and assess the adequacy of measures taken by management to address any problems in the Company's compliance with its obligations.
- Responsibility for the firms' policies and procedures for countering the risk that the Company's might be used to further financial crime.

The Compliance function comprises a team of compliance professionals led by the Head of Compliance. It has an independent reporting line ensured by a clear Terms of Reference and by oversight of the governing body. The activities of the Compliance Function may not exclusively be performed by the Compliance team. They may be supported by other departments including first-line management control areas, the office of the Company Secretary, the Legal Department and Internal Audit, Risk, and Actuarial, or external resources.

## **B.5 Internal audit function**

Internal Audit is an independent, objective assurance and consulting function set up within MIICL as a service to the MIICL Board and executive management. Internal Audit assists MIICL in achieving its objectives by bringing a systematic, disciplined approach to evaluate the effectiveness of risk management, control and governance processes. Internal Audit will make recommendations to management to improve the effectiveness of these processes.

For each audit a report is produced which includes an overall audit opinion and executive summary, findings, along with management's responses and remediation plans. Internal Audit reports are presented at an Audit Committee meeting for discussion and approval.

Summaries of all audit work undertaken, key findings and an assessment of management's remediation plans, highlighting areas where there are significant delays, are presented to the Audit Committee each quarter.

At least annually Internal Audit provides an assessment of the overall effectiveness of the governance, and risk and control framework, together with an analysis of any themes emerging from Internal Audit work.

The Internal Audit function is implemented through a team of full time staff, supported by subject matter experts as required. Internal Audit's independence is safeguarded by the Head of Internal Audit's direct reporting line to the Markel Corporation Managing Director of Internal Audit and indirect reporting line to the Chair of the MIICL Audit Committee.

## **B.6 Actuarial function**

The role of the Actuarial Department is to analyse, investigate and explain the Company's technical liabilities to management, underwriters, various other departments and external parties.

MIICL's Actuarial Function carries out a number of tasks including the following:

- Coordinating the calculation of SII Technical Provisions ("TPs"), ensuring appropriate assumptions, methodologies and models are used;
- Informing the Finance Committee of the reliability and adequacy of the calculation of SII TPs;
- Comparing best estimates against experience;
- Producing a report expressing an opinion on the overall underwriting policy, and another report on the adequacy of reinsurance arrangements; and
- Contributing to the risk-management system, in particular with respect to calculating the capital requirements for the Company.

## **B.7 Outsourcing**

MIICL's Outsourcing Policy sets out its approach to meeting our regulatory requirements for outsourcing. The overall aim is to ensure that the Company is fully responsible for its obligations when it outsources. Outsourcing focuses on two key questions. First, what is outsourcing? Second, is that outsourcing critical or important to MIICL? The policy also details approval, oversight and contractual requirements for outsourcing.

### **B.7.1 Critical / Important Outsourcing**

A function or activity is to be viewed as 'critical' or 'important' if it is essential to our operations in that without the function the Company could not deliver services to policyholders. Where a critical or important function or activity is outsourced, an individual is appointed to have responsibility for monitoring and oversight of that

function taking account of the nature of the arrangement. Areas where critical services are outsourced are listed below. Global Technology Services and IT Application Development & Maintenance are also considered critical and are covered in more detail in Section B.7.2.

Outsourced function or activity	Jurisdiction
Processing services for most risks written	UK
Claims processing	UK
Delegated underwriting	Various
Claims handling and administration	Various
Catastrophe Management Data Cleansing	India
Payroll	Various including UK
Data Centre /Data storage	UK/USA
Infrastructure/Service/Security Services	Various

### B.7.2 Material Intra-Group Outsourcing

Certain functions are provided to the Company on an intra-group outsourced basis.

**Investment Management** - Markel Gayner Asset Management ("MGAM"), a wholly owned subsidiary of Markel, has been appointed as the Company's investment manager. A written management agreement and investment management guidelines are in place. Investment management performance is monitored by the Finance Director, the Finance Committee and the Board.

**Treasury** - the bulk of the Company's treasury functions are performed by the corporate treasury team which is based in the United States. The Company's Finance Department and a small cash management function in London are regularly in contact with the US Treasury team and the Finance Director is responsible for oversight of these treasury services.

**Global Technology Services** - The Global Technology Services ("GTS") solutions are developed utilising industry standards and best practices. The data centre facilities utilise state-of-the-art, enterprise class infrastructure technologies to deliver optimal effective solutions. GTS has a diverse and dedicated Markel Corporation staff of Information Technology ("IT") professionals who are proficient in systems architecture and integration. They work with customers to deliver secure and highly available solutions. GTS IT infrastructure consists of midrange platforms as well as virtualised network and storage infrastructure. The systems and applications managed by GTS are enterprise-wide in scope, mission critical, and essential for the operations of the Markel. The Services provided include: Platform services, Enterprise Service Desk, Access Control, Desktop Services, Global network Services, Communication Services, Database Administration and Global Security Services.

In April 2019 GTS sub-contracted some of these services to a third-party (IBM). The outsourcing agreement between MIICL and GTS remains in place, to reflect the additional third-party obligations and with service level agreements formally captured. The agreement is governed through regular monthly and quarterly reviews.

**IT Application Development & Maintenance** - The Information Technology ("IT") software solutions are developed utilising industry standards and best practices for application development and maintenance. IT has a diverse and dedicated Markel Corporation staff of Information Technology professionals who are proficient in application architecture, design, development and maintenance. They work with customers to deliver secure and highly available software solutions. The systems and applications managed by IT are enterprise-wide in scope, mission critical, and essential for the operations of Markel. The Services provided include: Enterprise Architecture, Application Design and Development, Data Integration, Software Quality Assurance and Application Maintenance/Support.

Outsourced function or activity	Jurisdiction
Investment Management	USA
Treasury functions	USA
Global Technology Services	Various
IT Application Development & Maintenance	Various

As stated above there is a separate written agreement for Investment Management, with other intra-group outsourcing governed by an overarching written outsourcing agreement.

### **B.8 Assessment of adequacy of system of governance**

The Company's governance structure is established to:

- Ensure ERM is maintained at high standards;
- Ensure the business is operating in an efficient and effective manner; and
- Align control procedures for units within the organisation based on the risks they carry.

As MIICL continues to develop over time, the Board reviews its governance systems to ensure that they remain appropriate for the nature, scale and complexity of risks to which MIICL is exposed.

MIICL commissioned an independent, external review of Board effectiveness in 2019. The review considered the effectiveness of the Board in respect of the UK Corporate Governance Code. Although the tenets of the Code are not compulsory for MIICL, as it is not listed in the UK, both the PRA and FCA consider the Code as best practice for the corporate governance arrangements of all authorised firms. The review also specifically assessed governance arrangements against the Financial Reporting Council's ("FRC's") 'Guidance on Board Effectiveness' (July 2018), as well as PRA/Bank of England Supervisory Statement 5/16 'Corporate Governance: Board Responsibilities'.

In the review's opinion the MIICL Board was working effectively, with practices which are broadly in line with experience of similar sized firms in the general insurance market. The operation of the Board is supported by an open culture, experienced Board members and a structured approach to governance matters.

### **B.9 Any other information**

Following recommendations arising from an external Board Effectiveness review conducted in 2019, a review of Markel's Committee structure was undertaken during 2020. The Board approved a new Committee structure in November 2020, which more clearly delineates between Board Committees and Management Committees. Terms of Reference for Board and Management Committees are currently under review.

## C. Risk Profile

### C.1 Overview

Markel is committed to a structured and disciplined approach to risk management which considers strategy, process, people and technology. The aim of this approach is ensuring the perpetuation of the organisation by continually evaluating and managing risks to support achievement of our business objectives. As part of this commitment, Markel aims to maintain a positive and open culture towards risk management, throughout all levels of the organisation.

Markel considers the direction from Executive Management, or 'tone at the top', to be a critical element of its effective internal control and risk management programme. In particular, the ongoing involvement of the Board in performing its oversight function and Executive Management involvement in key aspects of the Risk Management Framework forms the foundation for an effective 'risk aware' culture among associates, investors and other key stakeholders.

The Risk Management Framework within Markel is purposefully linked to the values of the organisation through the "Markel Style". This includes the long-standing objectives of building the financial value of the organisation over the long term within an environment where its associates are able to challenge management.

### C.2 Capital Requirements

The uses of the Company's risk management processes continue to evolve through a number of internal processes and reviews, linked to the development of risk and capital management throughout the Markel organisation.

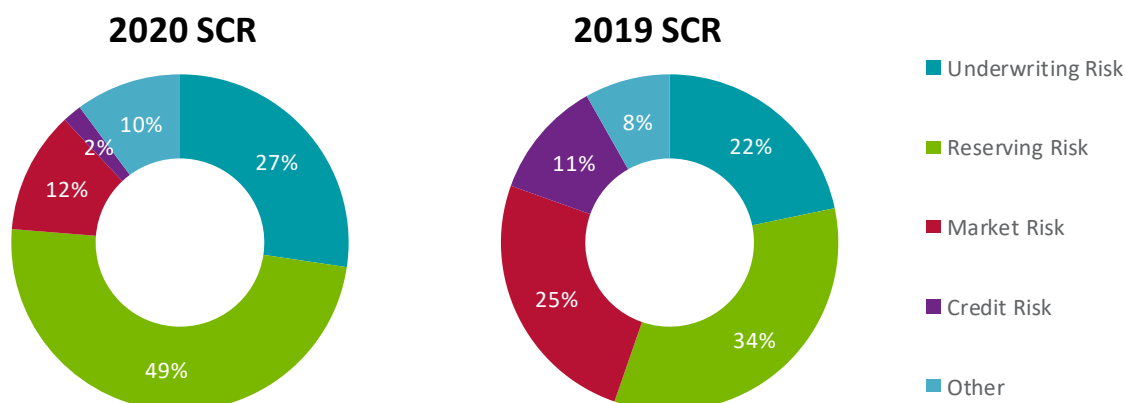
Feedback loops are in place across MIICL's governance committees and operational areas of the business to allow for continued improvements to the assessment process. The current and potential future uses of the risk and capital management tools, as part of integration into the decision making process include:

- Calculation of the capital requirements, subject to the necessary regulatory approvals.
- To provide useful information to senior and executive management in making ongoing business decisions.
- To be an integrated part of MINT's Risk Management Framework and systems of governance.
- Assessment of risk exposure and capital requirements in the context of strategy expectations and planning.
- Reinsurance purchasing and reinsurer credit analysis.
- Reviewing risk appetite and tolerances.
- Other management decisions including the evaluation of new business opportunities.

On a regular basis, a mapping exercise between the Risk Framework and the risks included within the capital modelling process is undertaken. This process ensures that the IM provides an assessment of MIICL's risk profile and that the Risk Framework continues to provide an appropriate representation of the risks faced by the business. The risk management processes are used to support parameterisation of inputs into the IM across the risk categories with examples including underwriting inputs (also used as part of the Business Planning Process) and the creation of Operational Risk Scenarios across a range of frequencies and severity levels.

MIICL calculates the capital requirements for its specific risk profile using an IM for which it received regulatory approval in December 2015.

The SCR risk profile for MIICL is set out below as at 31 December 2020 and 31 December 2019:



Insurance Risk, made up of Underwriting Risk and Reserving Risk, is the main contributor to MIICL’s Risk Profile. “Other” comprises Operational Risk and Pension Risk.

Please note that the Risk Profile above shows the spread value at risk approach which considers a band of simulations around the 1-in-200 capital level and the contribution of each of the risk types, for both 2019 and 2020.

### C.3 Risk Mitigation

The Company’s Risk Register details the risks to which it is, or may be, exposed. For each risk there are a number of controls in place that are used to mitigate the risk and these are monitored over time. Risk controls can be tools or techniques to proactively identify, manage or reduce risk and may involve the policies, standards, procedures and operations of MIICL. The Risk Register describes risk controls for each risk and identifies control ownership. The controls include those that are key controls in relation to financial reporting in compliance with the Sarbanes Oxley Act, as well as those that are not regulatory requirements, but are key business controls.

Risk Management meet regularly with the Risk Owners individually and present information to them regarding the risk(s) that they own and facilitate discussion regarding risk exposure and the effectiveness of risk mitigation.

Information on each of our major or “ultimate” risk areas is presented quarterly to the R&CC, which consists of Executive and Non-Executive Directors as well as other senior managers.

### C.4 Stress & Sensitivity Tests

Various sensitivity tests are conducted for MIICL, which allow for a better understanding of the key sensitivities for capital requirements.

MIICL carries out stress and scenario testing as part of the ORSA and IM Validation processes. These tests include all the risk areas to which the Company has exposure. As part of its stress and scenario testing analysis, MIICL also sets out to identify and assess the explicit scenarios most likely to render its business model unviable, a process known as Reverse Stress Testing (“RST”). The process starts from an outcome of business failure of MIICL and identifies circumstances under which this might occur. In order for this to occur, MIICL would have to experience extremely remote natural catastrophe losses, severe reserve deteriorations, or a combination of various remote events.

In the context of this analysis, management concludes that the capital held by MIICL is more than adequate to meet solvency needs and maintain ratings at current levels with an acceptable degree of confidence. In addition, the capital and liquidity requirements that arise from a range of stress and scenario tests suggest that MIICL holds sufficient capital resources to achieve its business goals.

## C.5 Key Risk areas

### C.5.1 Underwriting Risk

Underwriting Risk is defined as *“the risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities, focusing on risks that arise from the acceptance of business.”* Underwriting Risk is divided into:

- Natural Catastrophe Risk; and
- Non-natural Catastrophe Risk.

The Board of MIICL sets catastrophe risk limits in order to avoid excessive loss even in remote scenarios. The expectation is that remaining within these limits will allow MIICL to achieve its long-term underwriting target over a five-year period. MIICL aims to earn an underwriting profit over the long-term for all continuing product lines and will exit any product line that does not meet this expectation.

The Company measures Underwriting Risk against a series of risk appetite measures.

All underwriting at the Company is governed by high level “underwriting principles” that set out imperatives for underwriting. The first of these is related to underwriting profitable business and is “price business at a level which would enable the Company to achieve the agreed target combined ratios under USGAAP”. The Company's fundamental objective is to underwrite profitably on a gross basis and to achieve target combined ratios. For this purpose, a combined ratio is the ultimate loss ratio plus expense ratio. This measure of underwriting performance excludes any benefit from investment return and focuses attention on premium charged, coverage granted, commissions and other deductions and all direct and indirect expenses. The Company's underwriters and units are assigned combined ratio targets.

The Company sets prudent maximum line-sizes. All underwriters have written underwriting authorities and there are peer reviews/review processes in place to ensure that business underwritten does not exceed authority or is outside the business plan. Risks exceeding 18 months are not permitted to be written without prior, written approval, although certain general exceptions are made. Compliance with line-size and policy duration is monitored by the Company's Underwriting Operations team.

Technical pricing has been developed for many classes, and rate movements have been monitored since 2002. An independent reviewer performs a qualitative review of underwriting.

For natural catastrophe risk a key method of monitoring the Company's aggregate exposures is the production of a quarterly “Aggregations pack” which sets out the Company's exposures, both gross and net, to each material region or peril it is exposed to. Units are given aggregate limits for catastrophe business in each zone and adherence to these is monitored within the pack. Natural catastrophe exposures form part of Risk Management's quarterly assessment of risk to the R&CC and to the Board.

MIICL's exposure to natural catastrophe risk has decreased over the reporting period at the 1 in 10 Net Aggregate Exceedance Probability (“AEP”) and the 1 in 250 Net AEP, and at the 1 in 250 Net Occurrence Exceedance Probability (“OEP”). The overall trend since 2016 is a reduction in exposure, partly a result of MIICL exiting certain lines of business over this period.

### C.5.2 Reserving Risk

Reserving Risk is defined as *“the risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities, focusing on risks that arise from the quantification of those liabilities.”*

Examples of Reserving Risk mitigation techniques include case reserving and a full Actuarial reserving exercise, which occurs quarterly. This involves internal review within the Actuarial department and discussions with relevant underwriters and claims staff. IBNR packs are produced which contain gross and net projections for all classes of business written at MINT. The IBNR packs are discussed in detail at quarterly “Combined Ratio Meetings”, which are attended by members of the Board and the relevant Actuaries. A full reserving process document is maintained and control owners confirm quarterly that key controls are in place and are operating effectively.

Reserving Risk is measured by comparing held reserves against confidence level appetite. Certain indicators are also reviewed to ensure that reserving is appropriate.

### C.5.3 Market Risk

Market Risk refers to *"the risk of loss resulting from adverse financial market movements including interest rates or exchange rates."*

MIICL assets are invested according to investment guidelines, reflecting MIICL's investment risk appetite, which is agreed annually by the Board. These investment guidelines define asset risk tolerances and limits, together with currency matching risk appetites. Adherence to these is monitored at the R&CC through Key Risk Indicators. Any exceptions to risk appetite are reported to the Board.

Market Risk is measured by comparing asset concentration against investment guidelines. The Company's investment manager, MGAM produces a quarterly Investment Report which is reviewed quarterly by Markel's investment committee. The Company's Finance Director participates in this meeting. A quarterly investment report is produced for the Company's Finance Committee. The principal market risks and how exposure to these risks is managed are as follows:

**Interest rate risk:** The Company works to manage the impact of interest rate fluctuations on the fixed maturity portfolio. The effective duration of the fixed maturity profile is managed with consideration given to the estimated duration of policyholder liabilities.

**Equity price risk:** The Company sets limits on the amount of equities that can be held with any one issuer. The overall equity portfolio is also monitored to ensure that equity risk does not exceed the Company's risk appetite.

**Foreign exchange risk:** Foreign exchange risk is managed primarily by matching assets and liabilities in each foreign currency as closely as possible. To assist in the matching of assets and liabilities in foreign currencies the Company may purchase foreign exchange forward contracts or buy and sell foreign currencies in the open market. No foreign exchange forward contracts have been entered into during the year, or exist at the Balance Sheet date.

MIICL is aware of the obligation to invest only in instruments with objectives of capital preservation and return on investment, in the best interest of its policyholders.

MIICL has established investment guidelines to ensure prudent investments and adequate liquidity to meet policyholder obligations. All investments are regularly monitored against these guidelines by the Board.

MIICL's Investment Policy includes a number of key principles including a requirement that the Company adheres to the prudent person principle set out in article 132 of the SII Directive.

### C.5.4 Credit Risk

This risk relates to *"the risk of loss arising from the inability of a counterparty to fulfil its payment obligations."* Credit Risk is divided into two areas; Reinsurance Credit Risk and the risk of non-payment of premium by brokers and coverholders. Reinsurance is an integral part of the MINT business model, and therefore Credit Risk arises from reinsurance arrangements.

The company operates under the "prudent person principle" and only takes on credit exposures where it can properly identify, measure, monitor, manage, control and report, and appropriately take credit risk into account in the assessment of its overall solvency needs. Therefore the Board sets risk appetites for the amount of exposure it is prepared to accept in respect of Credit Risk. These are monitored through reports to R&CC and any exceptions are reported to the Board.

MIICL's appetite for exposure to reinsurers is based on security rating and capitalisation. Exposures are measured against these criteria and reinsurers may be requested to post collateral depending on their size, rating and potential debt to the Company. If a reinsurer is not willing to post collateral then their line size is reduced to an acceptable level in accordance with their applicable rating and capital level. MIICL's largest exposure is to another Markel company, Markel Bermuda Limited (MBL), which benefits from the financial strength of the Markel group.

Risk appetite is also monitored in terms of MIICL's exposure to brokers who may hold premium in relation to both inwards and outwards business.

### **C.5.5 Operational Risk**

Operational Risk is *the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.*" The Company recognises the importance of Operational Risk across all other risk areas: losses in other risk groups can be exacerbated by operational issues, for example poor data quality may affect Underwriting Risk. Therefore operational controls exist to mitigate each of these areas of risk, and these are factored into the parameterisation of these risk groups.

Key controls that mitigate each risk on our Risk Register have been identified together with the appropriate control owner. Each quarter the control owner is required to confirm that the controls they are responsible for have been in place and operating effectively during the previous quarter. Senior managers are required to answer a quarterly questionnaire designed to identify whether there are any changes to processes, or any events which might increase Operational Risk. Each quarter's confirmation process is summarised by Risk Management in a memo to the President, the Chief Operating Officer & Finance Director and the Chief Underwriting Officer.

An Incident Log (including Operational Losses and Near Misses) has been compiled. This records and quantifies losses and "near misses" arising from or exacerbated by failure of people, processes and systems as well as those caused by external (non-insurance) events. This assists in identifying Risk Events, Key Risk Indicators and also controls which would mitigate a recurrence of such losses.

Through the application of controls MIICL seeks to avoid any material adverse event arising from Operational Risk, and considers that operational risk is successfully mitigated. While there are no material concentrations of risk, examples of losses that could arise from Operational Risk include business disruption incidents, failure of IT systems or processes and internal fraud.

COVID 19 has caused a temporary shift in the operational strategy of the Company from an office based environment to a completely remote working environment. This has meant that internal processes and systems have been put to the test. The Company has adapted to the changes in the operational environment and business processes have continued to be carried out. The Company continues to actively manage operational risks caused by COVID 19, while engaging in open communication with staff.

### **C.5.6 Pension Risk**

MIICL is the sponsoring employer of MINT's defined benefits pension schemes. These have been closed to new entrants for more than ten years and closed to future accruals on April 1, 2012. Nevertheless, defined benefit pensions could generate future liabilities for MIICL and therefore it is appropriate to consider risk arising from this scheme.

A full triennial actuarial valuation was carried out at September 30, 2018. Following discussions with the Company and the Trustees it was agreed that the Company would pay an additional two contributions of £2.6m per annum on September 30, 2019 and September 30, 2020. We have performed stress tests around the discount rate, inflation rates and salary increase rates to assess the level of risk to make a capital provision for our pension liabilities.

## **C.6 Other Risk areas**

### **C.6.1 Liquidity Risk**

This area of risk relates to *"the risk that sufficient liquid financial resources are not maintained to meet liabilities as they fall due"*.

The Company manages liquidity risk in accordance with the "prudent person principle", where it can properly identify, measure, monitor, manage, control and report, and appropriately take liquidity risk into account in the assessment of its overall solvency needs. The aim is to maintain sufficient liquidity at MIICL to be able to meet payment obligations under severe catastrophe loss scenarios. Markel aims to support its liquidity position through the production of positive cashflow from operations. The Company monitors the projected settlement of liabilities and, in conjunction with MGAM, sets guidelines on the composition of the portfolio in order to manage this risk. The average duration of liabilities is 4.2 years (2019, 4.7 years). The duration of the

Company's investment portfolio is managed to match the expected cash outflows on liabilities, and is sufficiently liquid, having approximately 40% of assets in Cash / Short Term investments.

Liquidity Risk is measured through stress testing. There is an annual and quarterly Liquidity stress testing exercises which are designed to demonstrate whether MIICL is able to withstand significant losses without a material impact on liquidity. This was corroborated by our experience of the 2017 and 2018 natural catastrophes which caused no significant liquidity concerns.

Expected profits in future premiums are \$164.4m (2019, \$127.5m) as reported at in Appendix 7 (S.23.01.01)

### **C.6.2 Group Risk**

This is *"the risk that actions or events within one part of the Markel Corporation adversely affect an entity, or all entities, within MINT"*. MIICL considers it a strength to be part of a larger, experienced insurance group, with considerable financial resources and sound reputation. A number of controls are in place; such as internal committees which consider the interests of MINT's legal entities and endeavour to communicate the MINT perspective to Markel, with whom MINT has an excellent relationship.

The risk of the Company being part of MINT is also considered. Our policy is always to consider the interests of each legal entity, and our single risk strategy, risk management approach, operational procedures and standards are effective in ensuring that each entity is treated equitably. Overall the Board considers the fact that MIICL is part of a group that has insurance experience and significant capital resources assists in mitigating the risks to which MIICL is exposed.

### **C.6.3 Acquisition Risk**

There is a desire to grow the business profitability and look for potential acquisitions; however, these must be consistent with other strategic goals and risk strategy, and must complement existing operations. The Company's approach is to ensure effective identification, due diligence, valuation and integration leading to profitable acquisition activity. There may be significant or material strategic actions taken by another Markel company which may impact either the operations or the management team of MIICL however, strategic decisions are discussed with Board members and then reported to the Board for agreement.

During the acquisition process, a due diligence checklist is applied, where appropriate, to validate business case assumptions and support the Board in its ultimate decision on whether to proceed formally. The due diligence checklist is primarily focused on financial, legal and operational considerations and forms the basis for data room information requests.

### **C.6.4 Strategic Risk**

The Company is aware of the dangers of following an inappropriate strategy or the strategy not being adhered to throughout the organisation.

One of the strengths of being part of an insurance group is the benefit of the oversight of Markel, which is able to bring the collective insurance experience of many decades to ensuring that strategy is sound. The experience of the Company's Non-Executive Directors is also highly valued, including, but not limited to, experience on boards of insurers and insurance brokers. They have therefore seen various strategies pursued by insurers, both successfully and unsuccessfully, and they can therefore challenge proposed strategies.

MIICL's IM provides additional perspective of potential changes to MIICL's risk profile and capital requirements as a result of possible changes in strategy.

## **C.7 Any other information**

### **C.7.1 Climate change**

The risks arising from climate change, and society's response to it, are multifaceted, occur over an extended time horizon and are dependent on the severity of the changes in the climate. These risks continue to develop and the relative impact will be dependent on a number of aspects such as industry changes, policy changes and the speed with which those changes are implemented. Climate change and its associated potential risks are regularly reviewed by the R&CC. MINT has also developed a plan for managing the financial risks arising from climate change in line with PRA requirements. This plan will continue to develop over time as understanding of climate change and its potential impacts increases.

## D. Valuation for solvency purposes

### General valuation principles required under SII Framework

MIICL's SII Balance Sheet as at December 31, 2020 is reported in QRT S.02.01.02, which is attached at Appendix 1.

In accordance with Article 75 of the SII Directive, assets and liabilities other than TPs have been measured in accordance with the principles of an arms-length transaction between knowledgeable, willing parties using market consistent valuation methods.

Section D.1.1 below comprises a high level reconciliation from MIICL's UKGAAP Financial Statements to the SII Balance Sheet at Appendix 1. Sections D.2 and D.3 set out the valuation methodology for each material class of assets and liabilities, including a summary of the key valuation differences between the SII Balance Sheet and MIICL's Financial Statements, prepared on a UKGAAP basis.

### Comparison of UKGAAP Financial Statements and SII Balance Sheet

Balance Sheet Item	SFCR Section Ref	UKGAAP	Reclassification	SII Valuation	SII
		\$'000	Adjustments \$'000	Adjustments \$'000	\$'000
Investments in related undertakings	D.1.2	4,790	0	0	4,790
Equities	D.1.3	292,613	(338)	0	292,275
Bonds	D.1.4	511,130	105,397	64,730	681,257
Collective Investment Undertakings	D.1.5	204,211	0	0	204,211
Short term investments	D.1.4	99,999	(99,999)	0	0
Deposits other than cash and cash equivalents	D.1.6	0	0	0	0
Reinsurance recoverable from non-life TPs	D.1.7	523,058	0	(128,120)	394,938
Reinsurers' share of unearned premiums	D.1.12	42,548	0	(42,548)	0
Deferred acquisition costs	D.1.12	55,132	0	(55,132)	0
Insurance and intermediaries receivables	D.1.9	216,494	(169,025)	0	47,469
Reinsurance receivables	D.1.9	80,202	(47,518)	0	32,684
Receivables (trade not insurance)	D.1.10	5,525	1	0	5,526
Cash and cash equivalents	D.1.11	298,213	1	0	298,214
Accrued interest	D.2.3/D.2.4	5,060	(5,060)	0	0
Fixed assets	D.2.1	37	0	0	37
Deposits with ceding undertakings	D.1.8	0	0	0	0
Pension benefit surplus	D.1.13	21,759	0	0	21,759
<b>Total Assets</b>		<b>2,360,770</b>	<b>(216,541)</b>	<b>(161,070)</b>	<b>1,983,159</b>
Best Estimate TPs - non-life	D.2.3	1,355,290	(192,635)	(62,319)	1,100,336
Best Estimate TPs - life	D.2.3	0	0	25,883	25,883
Risk Margin	D.2.3	0	0	56,950	56,950
Gross unearned premiums	D.3.6	302,540	0	(302,540)	0
Pension benefit obligations	D.3.1	0	0	0	0
Deposits from reinsurers	D.3.2	0	1,366	0	1,366
Deferred tax liabilities	D.3.3	4,423	0	21,687	26,110
Insurance and intermediaries payables	D.3.4	96,852	0	0	96,852
Reinsurance payables	D.3.4	62,305	(25,229)	0	37,076
Payables (trade not insurance)	D.3.5	3,248	(43)	0	3,205
<b>Total Liabilities</b>		<b>1,824,658</b>	<b>(216,541)</b>	<b>(260,339)</b>	<b>1,347,778</b>
<b>Excess of Assets over Liabilities</b>		<b>536,112</b>	<b>0</b>	<b>99,269</b>	<b>635,381</b>

### D.1 Assets

#### D.1.1 Property, Plant and Equipment

As at December 31, 2020 MIICL held less than \$0.1m (2019, \$0.1m) of fixed assets. These were valued at replacement cost in accordance with Article 10.7(c) of the Delegated Regulation. This approximated to the net book value as reported in MIICL's UKGAAP Financial Statements.

#### D.1.2 Investments in Related Undertakings

MIICL's only subsidiary as at December 31, 2020 was MSM; MSM in turn has two wholly owned subsidiaries: MISL-D and MEL. MISL-D has one wholly owned subsidiary, MISL.

Under Article 13.1(b) of the Delegated Regulation, investments in subsidiaries must be valued using the "adjusted equity method" where there is no quoted market price available. MIICL's investment in MSM has

been valued using the adjusted equity method. Effectively, this requires the underlying assets and liabilities within each subsidiary to be valued in accordance with SII and for MIICL to value its investment based on its share of its subsidiary's net assets on a SII basis.

MIICL reports its investment in subsidiaries at the lower of cost and net realisable value in its Financial Statements.

Although different valuation bases were used for MIICL's SII Balance Sheet and its UKGAAP Financial Statements, the value as at December 31, 2020 was \$4.8m (2019, \$4.8m) under both bases.

### D.1.3 Equities

Excluding its investment in subsidiaries, MIICL's equity portfolio comprises securities listed on recognised stock exchanges (primarily the New York Stock Exchange). Equities were stated at fair value under SII, based on market prices at the reporting date. As these are publicly traded securities, the market prices are readily available and are actively traded. MIICL's equities are reported at market value in its Financial Statements, so the valuation is the same as under SII.

SII requires accrued income to be disclosed as part of the overall value of investments compared to UKGAAP where accrued income is disclosed separately. Accordingly, for SII purposes, accrued income is reclassified to the appropriate investment categories as shown in the reconciliation table in Section D.1.1.

MIICL's equities were valued at \$292.3m (2019, \$344.1m) in its SII Balance Sheet (Appendix 1). The value in MIICL's Financial Statements was \$292.6m (2019, \$344.1m), but the Financial Statement disclosure included variable interest rate bonds of \$0.4m (2019, \$0.4m), which were disclosed within bonds for SII purposes and this difference was partially offset by the fact that the SII value of equities included \$0.1m (2019, \$0.4m) of accrued dividends.

### D.1.4 Bonds

MIICL's bonds are stated at amortised cost in its UKGAAP Financial Statements in accordance with FRS102. MIICL's bonds are reported at fair value under SII, based on market prices at the reporting date.

Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

- **Level 1.** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.
- **Level 2.** Inputs to the valuation methodology are adjusted quoted prices for similar assets or liabilities in active markets.
- **Level 3.** Inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs and unobservable inputs for the asset or liability that are significant to the fair value measurement.

MIICL's bonds were valued at \$681.3m (2019, \$603.7m) in its SII Balance Sheet (Appendix 1), including accrued income of \$5.0m (2019, \$5.4m) compared to \$511.1m (2019, \$556.2m) in its Financial Statements (including investments in short term debt securities). MIICL bonds are categorised as level 2 (2019, level 2). As part of the assessment for the valuation of bonds the Company considers; the condition or location of the asset, the extent to which inputs relate to items that are comparable to the asset, and the volume or level of activity in the markets within which the inputs are observable.

In accordance SII requirements, bonds have been categorised between Government Bonds, Corporate Bonds and Collateralised Securities. The categorisations differ from presentation in the Financial Statements. SII classifications are:

- **Government Bonds.** The criteria for recognition as government bonds is set out in the Delegated Regulation and represent bonds issued by central governments, supranational government institutions, regional governments or local authorities. Notably it excludes most government guaranteed bonds.

- **Collateralised Securities** are securities whose value and payments are derived from a portfolio of underlying assets. Includes Asset Backed Securities, ("ABS"), Mortgage Backed securities ("MBS"), CMBS, Collateralised Debt Obligations ("CDO"), Collateralised Loan Obligations ("CLO") and Collateralised Mortgage Obligations ("CMO").
- **Corporate Bonds** represent bonds issued by corporations and bonds that are not eligible for classification under other categories (for example government guarantee bonds).

As at December 31, 2020, MIICL held:

- Government Bonds of \$347.6m (2019, \$274.3m) (Appendix 1).
- Corporate Bonds of \$165.5m (2019, \$167.5m) (Appendix 1).
- Collateralised Securities of \$168.2m (2019, \$161.9m) (Appendix 1). MIICL's Collateralised Securities consisted of CMO, MBS and CMBS securities. It did not hold any CDO or CLO securities.

#### D.1.5 Collective Investment Undertakings

MIICL held \$204.2m as at December 31, 2020 (2019, \$53.3m) in collective investment undertakings (Appendix 1). This comprises its investment in Money Market Funds. These investments are classified as cash and cash equivalents in its Financial Statements and are valued at cost. This represents the net realisable cash value, and is the alternative valuation method permitted under SII.

#### D.1.6 Deposits other than Cash Equivalents

MIICL held no deposits other than cash equivalents (Appendix 1) as at December 31, 2020 (2019, \$0.0m), which represent cash deposits with original maturities of more than three months. This represents the net realisable cash value, and is the alternative valuation method permitted under SII. The impact of time value of money is immaterial to the valuation.

#### D.1.7 Reinsurance Recoverables

MIICL reported reinsurance recoverables of \$394.9m as at December 31, 2020 (2019, \$446.0m) (Appendix 1), being the reinsurers' share of TPs valued on a SII basis. The SII valuation methodology is discussed in more detail in Section D.2 below. The impact of time value of money is immaterial to the valuation.

#### D.1.8 Deposits with Ceding Undertakings

MIICL held no deposits with ceding undertakings at December 31, 2020 (2019, \$3.1m). The deposits were valued at cost in MIICL's Financial Statements. This represents the net realisable cash value, and is the alternative valuation method permitted under SII. The impact of time value of money is immaterial to the valuation.

#### D.1.9 Insurance and Reinsurance Receivables

MIICL reported debtors of \$216.5m (2019, \$135.9m) and \$80.2m (2019, \$110.4m) arising out of insurance and reinsurance operations respectively in its Financial Statements.

Debtors as reported in the Financial Statements comprise premiums receivable, reinsurance recoveries on paid claims, gross accrued premiums and claims float balances. They are measured at initial recognition value less any provision for bad debt on reinsurance recoveries on paid claims.

Gross accrued premiums constitute future premium cashflows under SII and as such form part of SII TPs. Accordingly, \$216.5m (2019, \$161.9m) of gross accrued premium (comprising \$169.0m (2019, \$119.2m) in respect of direct and \$47.5m (2019, \$42.7m) in respect of reinsurance operations) were reclassified to SII TPs. The remaining reclassifications relate to intercompany balances. The remaining debtor balances of \$47.5m (2019, \$16.7m) of insurance receivables and \$32.7m (2019, \$67.7m) of reinsurance receivables represent the net realisable value of these debtors and is the alternative valuation method permitted under SII.

#### D.1.10 Trade Receivables

Trade receivables of \$5.5m (2019, \$27.1m) primarily consist of intercompany balances due from other Market subsidiaries. They are measured at initial recognition value in the Financial Statements and, as these represent the net realisable cash value this is the alternative valuation method permitted under SII.

#### D.1.11 Cash and Cash Equivalents

Cash and cash equivalents of \$298.2m (2019, \$242.5m) represent cash deposits with original maturities of less than three months. They are stated at the realisable cash value of the assets in accordance with SII.

### D.1.12 Deferred Acquisition Costs and Reinsurers' Share of Unearned Premiums

Deferred acquisition costs ("DAC") and reinsurers' share of unearned premiums are assets which are recognised in MIICL's Financial Statements. However, these assets are not recognised under SII due to the valuation basis required for TPs. Accordingly, these assets are valued at nil for SII.

### D.1.13 Pension benefit surplus

As set out in the UKGAAP Financial Statements, MIICL contributes to a pension scheme ("Terra Nova Life and Pension Scheme") which provides benefits based on final pensionable salary. On November 11, 2008 an agreement was signed resulting in a bulk transfer of assets and liabilities from the Lloyd's Superannuation Fund ("LSF") into the Terra Nova Life and Pension Scheme. With effect from that date the scheme was divided into 2 legally separate sections: the LSF Fund and the Terra Nova ("TN") Fund. On April 1, 2012, the scheme was closed for future service accrual.

An independent actuarial FRS102 valuation of both the TN Fund and the LSF Fund was carried out as at December 31, 2020 using the projected unit method. In accordance with paragraph 28.22 of FRS102, the Company is of the view that it is able to recognise a pension benefit surplus as a defined benefit plan asset as it believes it will be able to recover the surplus. At 31 December 2020 there was a gross surplus of \$21.8m (\$17.6m net of deferred tax Liability) on the Scheme that has been recognised in the accounts.

In accordance with Article 9 of the Delegated Regulation, International Accounting Standard 19: Employee Benefits ("IAS19") was followed in order to value the Pension Benefit Surplus for SII purpose. The value under this basis is the same as recognised in the Company's Financial Statements.

## D.2 Technical Provisions

### D.2.1 Required Valuation Methodology under SII Framework

Article 76 of the SII Directive defines the value of SII TPs as the "current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking".

Article 77 defines this as the sum of a "Best Estimate Provision" and a "Risk Margin".

#### Best Estimate Provision

The Best Estimate Provision is further clarified as:

*"The probability weighted average of future cashflows, taking account of the time value of money (expected value of future cashflows) using the relevant risk free interest rate term structure. The cashflow projection used in the calculation of the Best Estimate shall be based upon up to date and credible information and realistic assumptions and be performed using adequate, applicable and relevant actuarial and statistical methods.*

*The cashflow projection used in the calculation of the Best Estimate shall take account of all the cash inflows and outflows required to settle the insurance and reinsurance obligations over the lifetime thereof.*

*The Best Estimate shall be calculated gross, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. These amounts shall be calculated separately, in accordance with Article 81." (Article 77.2 SII Directive).*

#### Risk Margin

The Risk Margin is intended to represent the premium over the Best Estimate TPs that insurance or reinsurance undertakings would require in order to assume liability for the TPs transferred.

Under Article 77.5 of the SII Directive the Risk Margin is defined as *"the provision calculated by determining the cost of providing an amount of eligible own funds to the SCR necessary to support the insurance and reinsurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing*

*that amount of eligible own funds (Cost of Capital rate) shall be the same for all insurance and reinsurance undertakings and shall be reviewed periodically.”*

The key implications of the above requirements are:

- SII TPs are valued at their Best Estimate (mean of the full range of possible outcomes). Accordingly, any explicit or implicit margins over the best estimate should be excluded.
- The full range of possible future outcomes should include low probability extreme events, including latent claims (“Events Not In Data”).
- TPs valuations include future premium cash inflows and outflows. Under UKGAAP, future premiums are reflected as accrued premiums within insurance debtors and creditors.
- The change to a cashflow basis compared to earning basis of recognition of TPs removes the requirement for the non-monetary items under UKGAAP of DAC and Unearned Premium Reserves (“UPR”).
- The cashflow projections are required to take account of all expenses incurred in servicing the insurance obligations, which introduces the requirement to recognise additional expense provisions as part of overall TPs.
- The introduction of discounting represents a major change from current reporting bases. Under SII valuation requirements, future TP cashflows are discounted to their net present value using risk free rate yield curves prescribed European Insurance and Occupational Pensions Authority (“EIOPA”).
- The Risk Margin replaces existing explicit or implicit margins over best estimate provisions and is required to be calculated using a standardised approach.
- In addition, SII requires contracts to be recognised on a legal obligation basis as opposed to an inception date basis. Accordingly, TPs recognised at December 31, 2020 may include values for business not incepting until the following year. Under the legal obligation basis, SII recognises that firms will have already committed to a contract in advance of the inception date.

#### **D.2.2 Uncertainties with Valuations of Technical Provisions**

The adequacy of the Best Estimate TPs is assessed by reference to projections of the ultimate development of claims in respect of each underwriting year. Management continually attempts to improve its loss estimation process by refining its ability to analyse loss development patterns, claims payments and other information, but many reasons remain for potential adverse development of estimated ultimate liabilities.

The process of estimating loss reserves is a difficult and complex exercise involving many variables and subjective judgements. As part of the reserving process, the Company reviews historical data and considers the impact of various factors such as trends in claim frequency and severity, changes in operations, emerging economic and social trends, inflation and changes in regulatory and litigation environments. Significant delays occur in receiving notification of certain claims and a large measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the reporting date. The Best Estimate TPs are determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent development.

The two most critical assumptions as regards these claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the models used for current business are fair reflections of the likely level of ultimate claims to be incurred. However, the Company believes the process of evaluating past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. COVID 19 has provided additional challenges given the impact on claims in the year and unprecedented nature of the pandemic. The estimation process has required reviewing risks and events which are expected to trigger future reported claims, assumptions on when government restrictions will end, and assessing the potential financial loss of insureds. This has required underwriter, claims and actuarial experience in conjunction with external legal opinion and management’s professional judgement. Management currently believes the Company’s gross and net reserves, including the reserves for

environmental and asbestos exposures, are adequate. There is no precise method, however, for evaluating the impact of any significant factor on the adequacy of reserves, and actual results are likely to differ from original estimates.

Management has considered environmental and latent injury claims and claims expenses in establishing the Company's reserve for unpaid losses and loss adjustment expenses. The Company continues to be advised of claims asserting injuries from hazardous materials and alleged damages to cover various clean-up costs affecting policies written in prior years. Coverage and claim settlement issues, such as determining that coverage exists and defining an occurrence, may cause the actual loss development to show more variation than the rest of the Company's book of business. Traditional reserving techniques cannot be used to estimate asbestos-related and environmental pollution claims and so the uncertainty about the ultimate cost of these types of claims is greater than the uncertainty relating to standard LOB. The Company believes it has made reasonable provisions for claims, although the ultimate liability may be more or less than held reserves. The Company believes that future losses associated with these claims will not have a material adverse effect on its financial position. Still, there is no assurance that such losses will not materially affect the Company's results of operations for any period. Management is not able to estimate the additional loss, or range of loss, that is reasonably possible.

### D.2.3 Value of Technical Provisions as at December 31, 2020 and Analysis by LOB

MIICL's SII TPs were valued at \$788.2m (2019, \$611.3m) comprising Best Estimate TPs of \$731.3m (2019, \$553.1m) plus a Risk Margin of \$57.0m (2019, \$58.2m).

Gross Best Estimate TPs comprise \$1,100.3m (2019, \$973.9m) in respect of Non-Life TPs and Life TPs of \$25.9m (2019, \$25.2m). The Life TPs relate to potential Non-Life Annuities Motor Periodic Payment Order Claims.

Net Best Estimate TPs comprise \$705.4m (2019, \$528.0m) in respect of Non-Life TPs and \$25.9m (2019, \$25.2m) in respect of Life TPs. These are analysed by line of business below, and can also be found in QRT S.17.01.02 (Appendix 4; Non-Life TPs) and QRT S.12.01.02 (Appendix 5; Life TPs).

	SII Net Technical Provisions		Statutory Accounts	Difference
	Best Estimate	Risk Margin	Value (UKGAAP)	
	\$'000	\$'000	\$'000	\$'000
<b>Direct Business and Accepted Proportional Reinsurance</b>				
Income Protection	861	53	1,207	293
Marine, Aviation and Transport	171,187	10,520	146,511	(35,196)
Fire and Other Damage to Property	97,731	6,006	65,678	(38,059)
General Liability	295,943	18,187	321,073	6,943
Credit and Suretyship	55,815	3,430	50,587	(8,658)
Legal Expenses	(26,111)	1,605	53,683	78,189
Miscellaneous Financial Loss	14,238	875	20,983	5,870
<b>Accepted Non-Proportional Reinsurance</b>				
Non-Proportional Casualty	51,117	3,141	65,469	11,211
Non-Proportional Marine, Aviation and Transport	235	14	3,700	3,451
Non-Proportional Property	44,383	2,728	67,067	19,957
<b>Life and Health</b>	<b>25,883</b>	<b>10,391</b>	<b>36,274</b>	<b>0</b>
<b>Total</b>	<b>731,280</b>	<b>56,950</b>	<b>832,232</b>	<b>44,002</b>

### D.2.4 Transitional Provisions

The Company has not applied any of the following transitional provisions or adjustments:

- matching adjustment referred to in Article 77b of Directive 2009/138/EC
- volatility adjustment referred to in Article 77d of Directive 2009/138/EC
- the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC
- the transitional deduction referred to in Article 308d of Directive 2009/138/EC

## D.3 Other liabilities

### D.3.1 Pension Benefit Obligations

MIICL does not have a pension benefit obligation for either 2020 or 2019. For 2020 MIICL's pension benefit is recognised as a surplus and is referenced in D.2.13.

### D.3.2 Deposits from Reinsurers

Deposits from reinsurers were valued at cost in MIICL's Financial Statements. This equates to the net amount at which these liabilities are expected to be settled and, accordingly, the fair value under SII is the same.

### D.3.3 Deferred Tax Liabilities

#### Financial Statements

MIICL reported a deferred tax liability of \$4.4m (2019, \$4.9m) in its Financial Statements. This was valued as follows:

- Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Financial Statements.
- The following timing differences are not provided for:
  - a) differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met;
  - b) differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference;
  - c) deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.
- Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the reporting date. Deferred tax balances are not discounted.
- Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.
- Deferred tax relating to the unwind of claims equalisation reserves, which was a requirement under Solvency I, is released over a six year period for tax purposes. This is expected to be fully released by December 31, 2021.

#### Solvency II Valuation

Article 15 of the Delegated Regulation states that, firms should "recognise and value deferred taxes in relation to all assets and liabilities, including TPs that are recognised under the SII framework".

The provision for deferred tax in MIICL's SII Balance Sheet of \$26.1m (2019, \$20.7m) was valued as follows:

- The deferred tax liability in the Financial Statements was adjusted for the provision of deferred tax on differences between the valuation of assets and liabilities in the Financial Statements and the SII Balance Sheet.
- The additional deferred tax was measured at the tax rate applicable as at December 31, 2020.

### D.3.4 Insurance and Reinsurance Payables

Creditors arising out of insurance and reinsurance operations as reported in the Financial Statements comprise claims payable, reinsurance premiums payable, accrued reinsurance premiums. They are measured at initial recognition value.

Reclassifications relate to accrued reinsurance premiums reclassified to TPs as they constitute future premium cashflows under SII, and intercompany balances. The remaining creditor balances of \$96.9m (2019, \$42.4m) insurance payables and \$37.1m (2019, \$60.5m) reinsurance payables represent the net amount expected to be settled and therefore represents the fair value under a SII basis.

#### **D.3.5 Trade Payables**

Trade payables have been measured at initial recognition value in the Financial Statements and, as these represent the amount at which they are expected to be settled, no adjustment has been made to reflect these at fair value under SII.

#### **D.3.6 Gross Unearned Premiums**

The provision for gross UPR is a liability recognised in MIICL's Financial Statements. However, this is not a liability which is recognised under SII due to the valuation basis required for TPs. Accordingly, it is valued at nil for SII.

### **D.4 Alternative methods for valuation**

Where it is not possible to value assets and liabilities using active market prices, alternative valuation methods has been used. The Company has applied alternative valuation methods for the following assets and liabilities (all stated at net realisable value, as discussed in sections D.1, D.2 and D.3):

- Insurance and reinsurance receivables
- Trade receivables
- Cash and cash equivalents
- Deposits with ceding undertakings
- Trade payables
- Deposits from reinsurers

There is a degree of valuation uncertainty with these assets and liabilities as they are not quoted on active markets, and it is not certain whether they could be traded with an independent third party at the modelled price. The Company performs regular reviews of the valuation methods to ensure they are appropriate.

### **D.5 Any other information**

Not applicable.

## E. Capital Management

N.B. In line with regulatory requirements the only parts of this chapter that are audited are Sections E.1 (and all sub-sections), E.2.2, E.2.3 and E.2.4.

### E.1 Own Funds

#### E.1.1 Objectives, Policies and Processes for Managing Own Funds

The Company's available own funds, eligible own funds and ratio of eligible own funds over SCR and minimum capital requirement ("MCR") are disclosed in QRT S.23.01.01 (Appendix 7).

The objective of the business is to maintain sufficient own funds to cover the SCR, MCR and Economic Capital (based on the ultimate Solvency Capital Requirement ("uSCR") with an appropriate buffer). Own funds should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation.

The Company holds regular meetings of senior management, which are at least quarterly, at which the ratio of eligible own funds over SCR is reviewed. These committees are discussed in more detail in Section 3.1 on the governance processes.

As discussed in Section B.3.2, the Company prepares an ORSA report on at least an annual basis, which contains a five year projection of economic capital and own funds.

There were no material changes in the objectives, policies or processes during the reporting period.

#### E.1.2 Own Funds Classified by Tiers

All of the Company's own funds qualify as Tier 1, unrestricted capital (2019, all Tier 1). The components are:

##### Ordinary Share Capital

There was \$267.2m called up, issued and fully paid ordinary share capital as at December 31, 2020 (2019, \$267.2m). This is a high quality, available own fund item that has been classified as unrestricted Tier 1 on the basis that it is an eligible unrestricted Tier 1 item under Article 69 and meets the criteria set out under Article 71 of the Delegated Regulation.

##### Share Premium

There was \$199.8m share premium as at December 31, 2020 (2019, \$199.8m). This is a high quality, available own fund item that has been classified as unrestricted Tier 1 on the basis that it is an eligible Tier 1 item under Article 69 and meets the criteria set out under Article 71 of the Delegated Regulation.

##### Reconciliation Reserve

The reconciliation reserve was \$168.4m as at December 31, 2020 (2019, \$171.9m) comprising SII net assets of \$635.4m (excess of assets over liabilities) (2019, \$638.9m), less other basic own fund items of \$467.0m (2019, \$467.0m). It has been classified as unrestricted Tier 1 on the basis that it is an eligible Tier 1 item under Article 69 and meets the criteria set out under Article 71 of the Delegated Regulation.

There were no foreseeable dividends and no own shares held.

#### E.1.3 Transitional Arrangements

The Company does not hold any own fund items subject to transitional arrangements under Articles 308b(9) and 308b(10) of the Delegated Regulation and the Company does not hold any ancillary own funds.

#### E.1.4 Difference between Shareholder's Equity as shown in the Financial Statements and the SII Value of Excess Assets over Liabilities

Shareholder's equity of \$536.1m (2019, \$561.9m) was reported in the Financial Statements as at December 31, 2020, whilst the SII value of excess assets over liabilities was \$635.4m (2019, \$638.9m) (S.02.01.02.R1000.C0010) (Appendix 1).

A reconciliation of the key valuation differences is set out in Section D.1.1.

#### E.1.5 Eligible amount of Own Funds to meet SCR

All of the Company's own funds are Tier 1 and are unrestricted in terms of eligibility for meeting the SCR.

Total eligible own funds were \$635.4m (2019, \$638.9m). The coverage over SCR was 250.1% (2019, 241.1%).

#### E.1.6 Eligible Amount of Own Funds to meet MCR

Total eligible own funds were \$635.4m (2019, \$638.9m). The coverage over MCR was 555.7% (2019, 535.7%).

## E.2 Solvency Capital Requirement and Minimum Capital Requirement (unaudited)

### E.2.1 IM SCR

The SCR is the amount of funds that the Company is required to hold in line with the SII Directive. The SCR can be calculated using the Standard Formula or an IM.

In accordance with Article 100 of the SII Directive, the SCR corresponds to the "Value-at-Risk of basic own funds of an insurance or reinsurance undertaking, subject to a confidence level of 99.5% over a one year time period." ("One Year SCR").

The SCR is to be calculated on the assumption that the undertaking will pursue its business as a going concern and shall cover existing business as well as business to be written over the next 12 months.

The scope of MIICL's IM is defined as:

1. Market Internal Capital Engine ("MICE"), which forms the "calculation kernel" of the IM
2. External models (Economic Scenario Generator ("ESG") and Risk Management Solutions ("RMS"))
3. Data inputs

Data inputs include the business plan, underwriting and reserving data, investments, Balance Sheets, credit risk and operational risk data.

On December 5, 2015 the PRA granted MIICL approval to use a full IM to calculate its capital requirements and this approval was effective from the start of the SII Directive on January 1, 2016.

Set out below is the One Year IM SCR as at December 31, 2020 in line with the key risk categories discussed in section 4.5. 2019 values in the table below represent the SCR based upon the 31 December 2019 SII Balance Sheet.

	2020		2019		Movement	
	\$m	%	\$m	%	\$m	%
Reserve Risk	242.5	41%	189.3	30%	53.2	11%
Underwriting Risk	38.9	7%	58.8	9%	(19.9)	(3%)
Market Risk	152.5	26%	176.2	28%	(23.7)	(2%)
Operational Risk	49.9	8%	45.4	7%	4.5	1%
Credit Risk	87.3	15%	145.4	23%	(58.1)	(8%)
Pension Risk	26.1	4%	18.0	3%	8.1	2%
<b>Total Undiversified components</b>	<b>597.2</b>	<b>100%</b>	<b>633.1</b>	<b>100%</b>	<b>(35.9)</b>	
Diversification	(343.1)	-57%	(368.1)	-58%		
<b>Total SCR</b>	<b>254.1</b>		<b>265.0</b>		<b>(10.9)</b>	

N.B. The percentages in the table above assess the contribution of each undiversified risk area to the undiversified capital. Consequently they are different to the percentages in section C.2.

1. Reserve Risk represents the largest risk category and captures the risk of adverse development in existing (earned) business.
2. Underwriting Risk captures the risk relating to business to be written over the following 12 months or business unearned at the IM start date. The parameterisation of Underwriting Risk looks at the Attritional, Large Loss and Catastrophe Losses for each class of business. The parameterisation of the IM determines the expected loss ratio and sets an associated volatility for each of these risk categories within each business class.
3. Market Risk includes equity risk, interest rate risk, spread risk and foreign exchange risk. Data inputs include the investment portfolio and economic data parameters modelled by the ESG.

4. Operational Risk uses an Event Loss table to generate the frequency and severity of losses.
5. Credit Risk captures counterparty and reinsurer default risk.
6. Pension Risk relates to MIICL's defined pension scheme, which was closed to future service accruals with effect from April 1, 2012. Pension Risk is not modelled within MICE, but is generated as a separate addition to the IM SCR from capital stress tests on the pension scheme

The movement in SCR from \$265.0m to \$254.1m is driven by the increase in MIICL reserves between YE 2019 and YE 2020, mainly related to COVID-19 related losses, and growth in MIICL's premium income planned for 2021, offset by the increase in profitability of the future business written by MIICL. The decrease in SCR for MIICL was not deemed to exceed our Major Model Change Threshold.

### E.2.2 Minimum Capital Requirement

The Company uses the Standard Formula to calculate the MCR. Inputs comprise the net best estimate SII TPs split by SII LOB, together with net written premiums for the previous 12 months split by SII LOB. Net written premiums are on a SII basis and include movements on unaccepted premiums.

A detailed calculation of the MCR is included in QRT S.28.01.01 at Appendix 8. Set out below is a summary of the MCR calculation.

	2020	2019
	\$m	\$m
Linear MCR	167.6	128.3
SCR	254.1	265.0
MCR Cap	114.3	119.3
MCR Floor	63.5	66.3
Combined MCR	114.3	119.3
Absolute Floor	4.3	4.1
<b>Minimum Capital Requirement</b>	<b>114.3</b>	<b>119.3</b>

The linear MCR of \$167.6m (2019, \$128.3m) represents the MCR calculated by applying standard formula factors to the net best estimate TPs and net written premiums on a SII basis, split by SII LOB. The linear MCR is then subject to a cap of 45% (\$114.3m; 2019, \$119.3m) and a floor of 25% (\$63.5m; 2019, \$66.3m) of the One Year SCR. The absolute floor of \$4.3m (2019, \$4.1m) is based on the absolute floor of €3.7m, the difference being driven by the movement in exchange rates.

The linear MCR exceeds the MCR cap as it doesn't take into account the significant amount of business transferring to MISE and the reduction in the Latin American business (the linear MCR is a function of Net Written Premium in the previous 12 months and the Net Best Estimate Technical provisions). The MCR Cap is hence the formal MCR.

### E.2.3 Underwriting Specific Parameters Pursuant to Article 104 of the SII Directive

Not applicable as MIICL calculates its SCR using a full IM.

### E.2.4 Application of Options under Article 51 of the SII Directive

Not applicable.

## E.3 Use of duration based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable.

## E.4 Differences between the Standard Formula and the IM

### E.4.1 Uses of IM

MIICL has a number of areas where the IM may be used. These include, but are not limited to:

1. Capital Assessments (including SCR, uSCR and as a basis for the assessment of Economic Capital)
2. Allocation of capital (at least to Risk groups and Underwriting and Reserving Risk to Divisions)
3. Business planning

4. Risk Appetite Monitoring and Consumption
5. Reinsurance programme design
6. Acquisitions and new classes of business
7. Output for the ORSA and other Risk Management Analysis

The IM will be used for other areas where it is sensible to do so. There may also be exceptions where it is not reasonable or relevant to use the IM, for example, where there is insufficient data to employ stochastic modelling.

#### **E.4.2 Data for the IM**

Data within the IM is defined as including:

1. structured information which has been captured in a codified context, such as data held in defined fields on systems;
2. expert judgment (for example in setting coefficients of variation); and
3. data sets – final aggregations of data for specific purposes such as reserving, catastrophe modelling for use within the IM.

It is ensured that the data used in the IM is appropriate through a number of measures. This includes, but is not limited to:

- the formulation of a Data Directory that sets out the source, characteristics and usage of data within the IM; and
- an “Internal Model Data Policy”, approved by the Board, and sign off by Data owners that the data sets they have provided are materially complete, accurate, and appropriate prior to the approval of capital assessments by the Board.

#### **E.4.3 IM SCR – methodology and time horizon**

The IM models risk over a one year time horizon, consistent with the requirements set out in Section E.2.1, but also models risks arising on a longer time horizon (“risk to ultimate basis”). The SCR modelled under the Solvency II requirements is the basis for the Company’s Economic Capital assessments.

The IM is a stochastic simulation model. It calculates the cashflows that would arise from the risks included and over both a one year and risk to ultimate time horizon and combines these to provide a view of MIICL’s financial position at different levels of probability. Consistent with the requirements of the SII Directive, the value at the 99.5 percentile for risks emerging over a one year time horizon forms the One Year SCR.

#### **E.4.4 Key differences in methodologies between the IM and SF**

Both the IM and SF cover the material risks to which MIICL is exposed, but the Company applied to use a full IM on the basis that it more appropriately reflected MIICL’s risk profile. Key differences between the SF and IM SCR methodologies are set out below:

1. Catastrophe Risk under the SF is largely based on percentage loads (250% for assumed and 175% for direct business) to premiums as opposed to scenario analyses (this is particularly true for US, South America and Asian Cat exposures). The IM SCR is based on actual exposures and modelled scenarios from an Event Loss Table by region and perils, allowing for the reinsurance programme to be applied for each of these catastrophe losses.
2. Premium and Reserve Risk is calculated in aggregate under the SF, applying market average load factors to Premium and Reserve volumes categorised by Solvency II LOB. The IM considers Premium and Reserve Risk separately and at a more granular class level, better reflecting MIICL’s risk profile and loss experience. For example, under the SF, third party liability is a large single class whereas in the IM this comprises several classes of business with varying risk profiles.
3. Credit Risk from the IM tends to be higher than the risk calculated by the SF and is mostly driven by credit risk on reinsurer default. The SF applies standard load factors to the best estimate reinsurance recoveries from the SII Balance Sheet. The IM uses a transition matrix sourced from the ESG to model the rating of each reinsurer and the potential risk of default. The IM looks at each reinsurer separately and diversification will also reflect large concentrations with any one reinsurer.

4. The SF calculates Operational Risk from percentage factors applied to TPs and Earned premiums split by Solvency II Lob. The IM derives Operational Risk from an Event Loss Table of MIICL-specific events collated in consultation with the business, using internal and external loss information to assist in the parameterisation. The SF assumes full correlation between the Basic SCR and Operational Risk whereas the IM allows for diversification between these risk types.
5. The IM uses the ESG to generate returns by asset class compared to the SF which applies a capital charge to the value of asset classes.

#### **E.5 Impact of Part VII transfer**

During 2020 a Part VII transfer business from ECIC to MIICL took place, the impact of which is referenced in Section A.9.

#### **E.6 Non-compliance with the MCR and non-compliance with the SCR**

The Company complied with the MCR and SCR requirements during the reporting period.

#### **E.7 Any other information**

Not applicable.

## Glossary

ABS	Asset Backed Securities
ACH	Alterra Capital Holdings Limited
AEP	Aggregate Exceedance Probability
A&H	Accident and Health
The Board	The Board of Directors of MIICL
CDO	Collateralised Debt Obligations
CLO	Collateralised Loan Obligations
CMBS	Commercial Mortgage Backed Securities
CMO	Collateralised Mortgage Obligations
CRM	Combined Ratio Meeting
DAC	Deferred Acquisition Costs
D&O	Directors' and Officers' Liability
DMD	Divisional Managing Director
ECICL	EC Insurance Company Limited
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EPL	Employers Practices Liability
EQS	Entity Quota Share
ERM	Enterprise-Wide Risk Management
ESG	Economic Scenario Generator
Fannie Mae	Federal National Mortgage Association
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
Freddie Mac	Federal Home Loan Mortgage Association
FRS 102	Financial Reporting Standard 102
FRS 103	Financial Reporting Standard 103
Ginnie Mae	Government National Mortgage Association
GTS	Global Technology Services
GWP	Gross Written Premiums

IAS19	International Accounting Standard 19
IAS39	International Accounting Standard 39
IM	Internal Model
IMGV	Internal Model Governance and Validation Group
IT	Information Technology
LLP	Limited Liability Partnership
LOB	Line(s) of Business
LSF	Lloyd's Superannuation Fund
Markel	Markel Corporation
MBL	Markel Bermuda Limited
MBS	Mortgage Backed Securities
MCAP	Markel Capital Limited
MCH	Markel Capital Holdings Limited
MCR	Minimum Capital Requirement
MEL	Markel Europe Limited
MGAM	Markel Gaynor Asset Management
MICE	Markel Internal Capital Engine
MIHDL	Markel International Holdings Delaware Limited
MIHL	Markel International Holdings Limited
MIICL or The Company	Markel International Insurance Company Limited
MINT	Markel International Operating Division
MISE	Markel Insurance SE
MISL	Markel International Services Limited
MISL –D	Markel International Services (Delaware) Limited
MPL	Markel Protection Limited
MSM	Markel Syndicate Management Limited
OEP	Occurrence Exceedance Probability
ORSA	Own Risk and Solvency Assessment
PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Template

R&CC	Risk & Capital Committee
RMBS	Residential Mortgage Backed Securities
RMS	Risk Management Solutions
RSR	Regular Supervisory Report
RST	Reverse Stress Testing
SAO	Statement of Actuarial Opinion
SCR	Solvency Capital Requirement
SF	Standard Formula
SFCR	Solvency and Financial Condition Report
SII	Solvency II
SII TPs	SII Technical Provisions
The Syndicate	Market Syndicate 3000
TPs	Technical Provisions
TN Fund	Terra Nova Fund
UKGAAP	Generally Accepted Accounting Practice in the UK
uSCR	ultimate Solvency Capital Requirement
USGSE's	US Government Sponsored Enterprises
UPR	Unearned Premium Reserves

# Appendices

# Markel International Insurance Company Limited

## Solvency and Financial Condition Report

### Disclosures

31 December

**2020**

(Monetary amounts in USD thousands)

## General information

Undertaking name	Market International Insurance Company Limited
Undertaking identification code	549300HRELQKZ62ZP423
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	USD
Accounting standards	Local GAAP
Method of Calculation of the SCR	Full internal model
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

## List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.05.02.01 - Premiums, claims and expenses by country
- S.12.01.02 - Life and Health SLT Technical Provisions
- S.17.01.02 - Non-Life Technical Provisions
- S.19.01.21 - Non-Life insurance claims
- S.23.01.01 - Own Funds
- S.25.03.21 - Solvency Capital Requirement - for undertakings on Full Internal Models
- S.25.03.21 - Solvency Capital Requirement - for undertakings on Full Internal Models
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Assets</b>		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	21,759
R0060	Property, plant & equipment held for own use	37
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,182,532
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	4,790
R0100	<i>Equities</i>	292,275
R0110	<i>Equities - listed</i>	292,275
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	681,257
R0140	<i>Government Bonds</i>	347,563
R0150	<i>Corporate Bonds</i>	165,523
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	168,170
R0180	<i>Collective Investments Undertakings</i>	204,211
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	394,938
R0280	<i>Non-life and health similar to non-life</i>	394,938
R0290	<i>Non-life excluding health</i>	394,879
R0300	<i>Health similar to non-life</i>	59
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	47,469
R0370	Reinsurance receivables	32,684
R0380	Receivables (trade, not insurance)	5,526
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	298,214
R0420	Any other assets, not elsewhere shown	
R0500	<b>Total assets</b>	<b>1,983,159</b>

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
	<b>Liabilities</b>	
R0510	Technical provisions - non-life	1,146,895
R0520	<i>Technical provisions - non-life (excluding health)</i>	1,145,922
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	1,099,416
R0550	<i>Risk margin</i>	46,506
R0560	<i>Technical provisions - health (similar to non-life)</i>	973
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	920
R0590	<i>Risk margin</i>	53
R0600	Technical provisions - life (excluding index-linked and unit-linked)	36,274
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	36,274
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	25,883
R0680	<i>Risk margin</i>	10,391
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	1,366
R0780	Deferred tax liabilities	26,110
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	96,852
R0830	Reinsurance payables	37,076
R0840	Payables (trade, not insurance)	3,205
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	<b>Total liabilities</b>	1,347,778
R1000	<b>Excess of assets over liabilities</b>	635,381



## S.05.01.02

## Premiums, claims and expenses by line of business

## Life

Line of Business for: life insurance obligations						Life reinsurance obligations		Total
Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
<b>Premiums written</b>								
R1410	Gross							0
R1420	Reinsurers' share							0
R1500	Net				0		0	0
<b>Premiums earned</b>								
R1510	Gross							0
R1520	Reinsurers' share							0
R1600	Net				0		0	0
<b>Claims incurred</b>								
R1610	Gross				-1,505			-1,505
R1620	Reinsurers' share							0
R1700	Net				-1,505		0	-1,505
<b>Changes in other technical provisions</b>								
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net				0		0	0
R1900	<b>Expenses incurred</b>				0		0	0
R2500	<b>Other expenses</b>							
R2600	<b>Total expenses</b>							0



S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
R1400								
	<b>Premiums written</b>							
R1410	Gross							0
R1420	Reinsurers' share							0
R1500	Net	0						0
	<b>Premiums earned</b>							
R1510	Gross							0
R1520	Reinsurers' share							0
R1600	Net	0						0
	<b>Claims incurred</b>							
R1610	Gross	-1,505						-1,505
R1620	Reinsurers' share							0
R1700	Net	-1,505						-1,505
	<b>Changes in other technical provisions</b>							
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net	0						0
R1900	<b>Expenses incurred</b>							0
R2500	<b>Other expenses</b>							
R2600	<b>Total expenses</b>							0

S.12.01.02

Life and Health SLT Technical Provisions

	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)	
	Insurance with profit participation	Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees				Contracts with options or guarantees						
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010 <b>Technical provisions calculated as a whole</b>									0	0						
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									0	0						
R0020									0	0						
<b>Technical provisions calculated as a sum of BE and RM</b>																
<b>Best estimate</b>																
R0030 <b>Gross Best Estimate</b>									25,883	25,883						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									0	0						
R0080									0	0						
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re								0	25,883	25,883						
R0100 <b>Risk margin</b>									10,391	10,391						
<b>Amount of the transitional on Technical Provisions</b>																
R0110 Technical Provisions calculated as a whole										0						
R0120 Best estimate										0						
R0130 Risk margin										0						
R0200 <b>Technical provisions - total</b>								0	36,274	36,274						

S.17.01.02

**Non-Life Technical Provisions**

Direct business and accepted proportional reinsurance													Accepted non-proportional reinsurance				Total Non-Life obligation
Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance		
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180	
R0010	<b>Technical provisions calculated as a whole</b>																
		0			0	0	0	0	0		0		0	0	0	0	
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																
																0	
<b>Technical provisions calculated as a sum of BE and RM</b>																	
<b>Best estimate</b>																	
<b>Premium provisions</b>																	
R0060	Gross																
		191			-15,980	1,796	-30,601	-4,439	-55,102		1,133		-1,123	-158	-8,749	-113,032	
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																
		50			-43,160	-3,963	-13,956	482	1		-816		-1,016	0	-6,615	-68,992	
R0150	<b>Net Best Estimate of Premium Provisions</b>																
		141			27,180	5,759	-16,645	-4,921	-55,104		1,950		-107	-158	-2,134	-44,039	
<b>Claims provisions</b>																	
R0160	Gross																
		729			216,562	102,974	617,235	92,168	28,993		15,428		54,673	441	84,164	1,213,367	
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																
		9			72,555	11,003	304,648	31,432	0		3,140		3,449	48	37,647	463,930	
R0250	<b>Net Best Estimate of Claims Provisions</b>																
		720			144,007	91,971	312,588	60,736	28,993		12,288		51,224	394	46,517	749,437	
R0260	<b>Total best estimate - gross</b>																
		920			200,582	104,771	586,635	87,728	-26,110		16,562		53,550	283	75,415	1,100,336	
R0270	<b>Total best estimate - net</b>																
		861			171,187	97,731	295,943	55,815	-26,111		14,238		51,117	235	44,383	705,398	
R0280	<b>Risk margin</b>																
		53			10,520	6,006	18,187	3,430	1,605		875		3,141	14	2,728	46,559	
<b>Amount of the transitional on Technical Provisions</b>																	
R0290	Technical Provisions calculated as a whole																
																0	
R0300	Best estimate																
																0	
R0310	Risk margin																
																0	
R0320	<b>Technical provisions - total</b>																
		973			211,103	110,777	604,822	91,158	-24,505		17,437		56,692	297	78,142	1,146,895	
<b>Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total</b>																	
R0330		59			29,395	7,040	290,692	31,914	1		2,324		2,433	48	31,032	394,938	
R0340	<b>Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total</b>																
		914			181,707	103,737	314,130	59,245	-24,506		15,113		54,258	250	47,110	751,957	

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020

Accident year / underwriting year

Gross Claims Paid (non-cumulative)														
(absolute amount)														
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
	Development year										In Current year	Sum of years (cumulative)		
	0	1	2	3	4	5	6	7	8	9			10 & +	
R0100	Prior											14,687	14,687	14,687
R0160	2011	8,656	38,203	35,798	26,082	39,839	8,184	9,543	8,796	9,253	17,791	17,791	202,146	
R0170	2012	5,495	31,587	34,970	50,924	36,671	18,945	11,681	6,917	3,574		3,574	200,765	
R0180	2013	4,864	29,123	60,050	25,192	12,632	8,020	19,347	6,393			6,393	165,621	
R0190	2014	-5,119	106,392	60,058	40,523	17,365	34,395	12,775				12,775	266,389	
R0200	2015	9,434	39,086	53,120	31,832	23,342	34,053					34,053	190,869	
R0210	2016	13,138	32,256	40,057	23,937	8,842						8,842	118,230	
R0220	2017	45,439	134,497	75,394	66,875							66,875	322,206	
R0230	2018	12,448	95,397	62,205								62,205	170,050	
R0240	2019	25,288	107,898									107,898	133,186	
R0250	2020	28,270										28,270	28,270	
R0260												<b>Total</b>	363,364	1,812,419

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
	Development year										Year end (discounted data)		
	0	1	2	3	4	5	6	7	8	9		10 & +	
R0100	Prior											81,208	78,985
R0160	2011	0	0	0	0	0	3,014,932	2,636,631	54,355	40,979	21,240	20,899	
R0170	2012	0	0	0	0	6,330,407	4,979,387	54,359	40,328	35,992		35,534	
R0180	2013	0	0	0	7,194,943	4,924,308	78,402	59,555	45,142			44,155	
R0190	2014	0	0	16,077,403	9,675,542	130,165	93,254	80,359				79,259	
R0200	2015	0	27,682,598	15,250,198	148,574	108,007	63,131					61,593	
R0210	2016	7,565,869	16,038,729	143,054	103,231	81,568						80,090	
R0220	2017	5,617,607	264,465	168,214	119,155							117,452	
R0230	2018	205,023	209,831	176,189								173,579	
R0240	2019	233,682	346,753									344,464	
R0250	2020	178,857										177,356	
R0260												<b>Total</b>	1,213,367



## S.25.03.21

## Solvency Capital Requirement - for undertakings on Full Internal Models

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
	C0010	C0020	C0030
1	50200I	Reserve Risk	242,500
2	50100I	Premium Risk	38,900
3	59900I	Diversification within non-life underwriting risk	-76,700
4	10300I	Interest Rate Risk	52,100
5	10400I	Equity Risk	132,400
6	10900I	Currency Risk	78,700
7	19900I	Diversification within Market Risk	-110,700
8	70100I	Operational Risk	49,900
9	20300I	Credit Risk	87,300
10	80100P	Pension Risk	26,100

S.25.03.21

**Solvency Capital Requirement - for undertakings on Full Internal Models**

**Calculation of Solvency Capital Requirement**

	C0100
R0110 Total undiversified components	520,500
R0060 Diversification	-266,400
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
<b>R0200 Solvency capital requirement excluding capital add-on</b>	<b>254,100</b>
R0210 Capital add-ons already set	
<b>R0220 Solvency capital requirement</b>	<b>254,100</b>

**Other information on SCR**

R0300 Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310 Amount/estimate of the overall loss-absorbing capacity of deferred taxes	26,110
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	
R0420 Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430 Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440 Diversification effects due to RFF nSCR aggregation for article 304	

**Approach to tax rate**

	C0109
R0590 Approach based on average tax rate	Yes

**Calculation of loss absorbing capacity of deferred taxes**

	LAC DT
	C0130
R0640 Amount/estimate of LAC DT	26,110
R0650 Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	26,110
R0660 Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	
R0670 Amount/estimate of AC DT justified by carry back, current year	
R0680 Amount/estimate of LAC DT justified by carry back, future years	
R0690 Amount/estimate of Maximum LAC DT	

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR<sub>NL</sub> Result

C0010

167,017

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020

C0030

	C0020	C0030
R0020 Medical expense insurance and proportional reinsurance	0	
R0030 Income protection insurance and proportional reinsurance	861	-136
R0040 Workers' compensation insurance and proportional reinsurance	0	
R0050 Motor vehicle liability insurance and proportional reinsurance	0	
R0060 Other motor insurance and proportional reinsurance	0	
R0070 Marine, aviation and transport insurance and proportional reinsurance	171,187	147,755
R0080 Fire and other damage to property insurance and proportional reinsurance	97,731	22,420
R0090 General liability insurance and proportional reinsurance	295,943	214,335
R0100 Credit and suretyship insurance and proportional reinsurance	55,815	11,683
R0110 Legal expenses insurance and proportional reinsurance	0	62,578
R0120 Assistance and proportional reinsurance	0	
R0130 Miscellaneous financial loss insurance and proportional reinsurance	14,238	7,118
R0140 Non-proportional health reinsurance	0	
R0150 Non-proportional casualty reinsurance	51,117	67,722
R0160 Non-proportional marine, aviation and transport reinsurance	235	62,116
R0170 Non-proportional property reinsurance	44,383	11,775

Linear formula component for life insurance and reinsurance obligations

R0200 MCR<sub>L</sub> Result

C0040

544

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
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C0050

C0060

	C0050	C0060
R0210 Obligations with profit participation - guaranteed benefits		
R0220 Obligations with profit participation - future discretionary benefits		
R0230 Index-linked and unit-linked insurance obligations		
R0240 Other life (re)insurance and health (re)insurance obligations	25,883	
R0250 Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation

R0300 Linear MCR

C0070

167,560

R0310 SCR

254,100

R0320 MCR cap

114,345

R0330 MCR floor

63,525

R0340 Combined MCR

114,345

R0350 Absolute floor of the MCR

4,328

R0400 Minimum Capital Requirement

114,345