La Fraternelle Mutual Fire Insurance Society
("La Fraternelle")

Public Disclosure Information
for the financial year ended 30 September 2018

This information has been prepared in accordance with the Insurance Business (Public Disclosure of Information) Rules, 2018.

Profile

La Fraternelle Mutual Fire Insurance Society is a Guernsey-based mutual society and is authorised for insurance business by the Guernsey Financial Services Commission under the Insurance Business (Bailiwick of Guernsey) Law, 2002 (as amended). It trades under the name "La Fraternelle Home Insurance".

La Fraternelle provides building and contents insurance for residents of the Bailiwick of Guernsey.

La Fraternelle aims to provide specified classes of insurance contracts for members as well as providing local community and charity funding via La Fraternelle Fund. The insurance contracts are designed to cover damage and theft. Alongside collective premiums from policyholders, La Fraternelle also maintains a portfolio of assets enabling it to meet its objectives.

Corporate Governance

The Board of Directors of La Fraternelle operates in accordance with the *Finance Sector Code of Corporate Governance* issued by the Guernsey Financial Services Commission.

The Board is comprised of seven Directors, including a Managing Director (who is also the Secretary).

Orion Insurance Management Limited is the Insurance Manager of La Fraternelle and provides a Compliance Officer, Money Laundering Compliance Officer and Money Laundering Reporting Officer all of whom report to be board of La Fraternelle. Two of the Directors are also Directors of the Insurance Manager (one Director is a Non-Executive Director of the Insurance Manager and the Managing Director is also Managing Director of the Insurance Manager).

The Board exercises management control and is responsible for the risk management framework. One of the key risks is ensuring that payments are not made erroneously or as a result of fraudulent claims, this risk being mitigated by one of the Non-Executive Directors approving every payment.

Technical Reserves

Building and contents insurance can, in some circumstances, be "long tail" insurance, and therefore the balance sheet includes technical provisions in respect of claims. The claims provision (£649,108) is approximately two-thirds of the claims for the financial year (£944,034). Claims are also backed by investments totalling £1.5 million.

Insurance Risk

The risk under an insurance contract is the possibility that an insured event occurs and the policyholder suffers a loss. By its nature this risk is random and therefore unpredictable. The insurer is subject to uncertainty over the timing and amount of any resulting claim.

The insurer reviews each claim to confirm it is valid under the terms of the insurance policy. The insurer reviews the adequacy of the insured level of each insurance policy to ensure the claim paid is not in excess of what is covered under the policy. There is a risk that the final settlement will be significantly different to the claim provision recognised at the reporting date. The insurer mitigates this risk by assigning an expert loss adjuster to assess claims that are significant in size or nature, for example those claims relating to water damage or subsidence.

The level of claims is reviewed on an ongoing basis by the directors and where claims have increased significantly in frequency or value the directors will consider if it is necessary to increase insurance premiums.

Although the timing of claims in uncertain, most claims are both small and discrete and the insurer ensures that it has assets that are sufficiently liquid to settle claims as they arise.

The insurer further manages its insurance risk by reinsuring 95% of its business. It also reinsures against the impact of catastrophe claims.

Financial Performance
The insurer maintains two sets of income and expenditure accounts, one in respect of the general insurance business and the other covering non-insurance items.

Income & Expenditure – General Insurance Business

	2018	**2017**
INCOME	**£**	**£**
Earned Premiums (gross)	918,010	946,340
Premiums paid to reinsurers	(878,640)	(906,123)
Additional contribution to reinsurers	-	(100,000)
Other	136,855	142,864
	176,225	83,081
EXPENDITURE		
Net Claims (Gross minus Reinsurer's share)	(46,530)	(32,993)
Net Change in claims provisions	7,002	(17,119)
Commission Payable	(20,499)	(32,119)
	(60,027)	(82,231)
NET INCOME – GENERAL INSURANCE BUSINESS	**116,198**	**850**

The total investment income for the insurer was:

Investment Income

	2018	**2017**
INCOME	**£**	**£**
Investment Income	4,513	7,331
Bank Interest	972	-
Realised Gains/(Losses) on sale of investments	32,478	-
Unrealised Gains/(Losses) on investments	(26,626)	18,058
TOTAL INVESTMENT INCOME	**11,337**	**25,389**

Claims

Year-on-year gross claims increased from £622,017 to £944,034 (an increase of 51.8%) whilst premiums decreased from £946,340 to £918,010 (a decrease of 3.0%).

The insurer regularly tracks claims vs premiums through regular management information. If claims continued to increase vs premiums, then the insurer would seek to increase the premium charged to policyholders at time of annual renewal. Similarly, the reinsurer will charge an increased premium for reinsurance, which will be reflected in the premium charged to policyholders.

Capital Adequacy
Under the Insurance Business (Bailiwick of Guernsey) Law 2002, the Guernsey Financial Services Commission sets regulatory solvency requirements - the Prescribed Capital Requirement ("PCR") and the Minimum Capital Requirement ("MCR") – under the Insurance Business (Solvency) Rules 2015 (as amended). The insurer calculates both the PCR and the MCR using the formulae set out in the Rules.

The MCR can be no less than the Capital Floor. For La Fraternelle the Capital Floor is £100,000. As the calculated MCR would be less than the Capital Floor, at the end of the financial year the MCR for the insurer was £100,000.

At the end of the financial year the PCR for the insurer was £1,241,293.

The Solvency Ratio at the end of the financial year was 156.2% (being the available capital of £1,939,040 divided by the PCR of £1,241,293). The insurer therefore has more than adequate solvency for its business.

Financial Instruments
The insurer has investments in property (in the Bailiwick of Guernsey via La Fraternelle Holdings Limited, a wholly owned subsidiary) and in a portfolio managed by Ravenscroft Investment Management Limited (a Guernsey-based investment manager licensed by the Guernsey Financial Services Commission).

The investments can be broken down as follows:

	Property	**Ravenscroft Portfolio**
Bonds	-	10.62%
Cash	0.63%	1.35%
Liquid Equity	-	8.25%
Property	79.15%	-
Total	**79.78%**	**20.22%**
Total Value	**£1,235,891**	**£313,163**

Enterprise Risk Management (ERM) and Asset-Liability Management (ALM)
As a Category 3 licensed insurer with a MCR below £1,500,000 the insurer is only required to produce an Own Solvency Capital Assessment (OSCA) as its Own Risk and Solvency Assessment (ORSA). The insurer has produced an OSCA, which confirms that the insurer has sufficient capital. The OSCA will be updated when there is a significant change in its risk profile or at least annually.

Under the risk management framework, the insurer is aware of its risks and has ensured that it has sufficient funds to meet its liabilities. The financial situation of the insurer is reviewed by the directors at regular board meetings.

As part of its risk framework the insurer has an Asset-Liability Management policy. This ensures that the insurer has sufficient funds and liquidity to meet the cash flow requirements of its business. The insurer can confirm that it:

- Has sufficient cash on account to meet the short- and medium-term liabilities of its insurance business
- Has sufficient cash and liquid investments to meet the long-term liabilities of its insurance business

The audited financial statements of the insurer are available on request.

Date: 02 August 2019