Bupa Insurance Limited

Annual Report and Accounts for the financial year ended

31 December 2020

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Registered number: 3956433

Contents

Strategic Report
for the year ended 31 December 2020

The Directors present their annual report and the financial statements of Bupa Insurance Limited for the financial year ended 31 December 2020.

Principal activities

Bupa Insurance Limited (the “Company”) is the UK’s largest health insurer and a leading provider of international health insurance providing medical cover to 2.5m customers worldwide.

The Company is wholly owned by the Bupa Group (“Bupa”), an international healthcare company. Over the past 70 years Bupa’s global footprint has grown from our origins in the UK to Australia, Spain, Poland, Chile, New Zealand, Hong Kong, Turkey, Mexico, the US, Brazil, the Middle East and Ireland. Bupa also has associate businesses in Saudi Arabia and India. Bupa has 17.9m health insurance customers, provides healthcare to over 13.6m people in its health clinics, hospitals and dental centres, and looks after around 20,000 aged care residents and employs around 84,000 people globally. Bupa was established in 1947 when 17 British provident associates and other UK funding organisations such as hospital contributory schemes came together. Their aim was to enable people to fund high-quality healthcare. Bupa is a company limited by guarantee with no shareholders, with profits reinvested in the business for the benefit of current and future customers.

We’re driven by Bupa’s purpose, helping people live longer, healthier, happier lives. It defines everything we do for our customers, inspiring and motivating us to improve our performance. The Company provides personal, corporate and small to medium enterprise (“SME”) health insurance, as well as inward reinsurance and a small number of ancillary insurance products, such as cash plans, dental and travel insurance.

The two main health insurance segments are domestic private medical insurance (“PMI”) predominantly in the UK market; and international private medical insurance (“IPMI”) provided for individual consumers and employees requiring cover beyond their usual country of residence. The latter is underwritten both directly and through inward reinsurance.

Our principle operations take place in the UK, with a branch sited in Switzerland and branches closed to new business in Denmark and Cyprus. The Denmark and Cyprus branches will be formally removed in 2021 following finalisation of any outstanding claims liabilities. Operational services, including the provision of mediation and administrative services are provided by Bupa Insurance Services Limited and some smaller group companies located in Egypt and Hong Kong.

COVID-19

The pandemic impacted the way we operate and changed the way many of our health insurance customers access products and services. The measures taken by governments to protect their citizens and public health systems meant that many treatments and procedures were delayed due to lockdown measures. We responded by expanding our range of remote services, to meet demand, offering around-the-clock access to expert advice and care to help customers stay in control of their physical and mental health from home.

We enhanced services to provide remote, direct access to GPs, physiotherapists and nurses, and consultants via video or phone. We made it easier for customers to communicate with us. We introduced dedicated phone lines for COVID-19 assistance and reinforced existing lines to support both physical and mental health. We launched webchats and virtual assistants and increased the frequency of direct communications with customers, launched dedicated COVID-19 information hubs on our websites and apps and shared resources to help our customers take care of their physical and mental wellbeing. We took a range of targeted actions to support our customers. This included removing pandemic exclusions for COVID-19 and supporting those experiencing financial hardship.

During the first UK lockdown many healthcare services across the UK were impacted as a result of the pandemic. During that time the independent hospital sector played an important role in supporting the NHS. Independent hospitals were contracted by the NHS to provide time critical services to NHS patients and to share resources and healthcare workers with the public system. This resulted in some services being temporarily restricted and some treatment for our customers being delayed.

There was still a significant amount of private treatment available for customers during the peak of the disruption between April and June. For example, critical care, such as fast support for cancer treatment and heart conditions, was largely unaffected and access to independent hospital and out-of-hospital services opened up further from June onwards. We have encouraged our customers to seek the healthcare they need. Delayed treatments reduce claims costs in 2020 which, when rescheduled, will give rise to future claims rebound that will increase claims experienced in 2021, however, we think it’s likely that there will be a reduction overall as a result of the pandemic.

We pledged to return to our UK PMI customers any exceptional financial benefit ultimately arising as a result of the COVID-19 pandemic as a rebate. We will do that once the ultimate impact of the crisis is clearer. This pledge gave rise to an estimated return of premium provision of £145.2m.

Our IPMI policies include a wider range of benefits which were not disrupted, for example maternity care and chronic conditions, and full cover was provided for COVID-19 care giving reassurance of access to healthcare and support to our globally mobile customers. Having considered the conditions affecting our IPMI policyholders we concluded that they continued to receive value from their policies and so no return of premium was necessary.

Key performance indicators

	2020	2019
Insured lives (millions)	**2.5**	2.7
Net premiums earned (£'m)	**2,080.1**	2,258.2
Profit before taxation, financial income and expense (£'m)	**164.5**	108.3
Net financial income and expense (£'m)	**1.0**	1.8
Profit before taxation (£'m)	**165.5**	110.1
Loss ratio[1]	**64.0%**	71.9%
Combined operating Ratio[2]	**92.5%**	95.4%
Solvency II (SII) coverage ratio (estimated)[3]	**213%**	171%

[1] Loss ratio is calculated as the ratio of claims incurred as a percentage of net premiums earned
[2] Combined operating ratio is the ratio of total claims and expenses as a percentage of net premiums earned
[3]The Solvency Capital Position and related disclosures are estimated values and are unaudited at the time of approval of the financial statements

Results

Profit before tax increased by £55.4m to £165.5m (2019: £110.1m) due to reduced claims which were a direct result of the disruption caused by COVID-19, however, we expect a rebound of claims in excess of this amount in 2021 with an equivalent reduction to 2021 profits. A rebound of deferred claims for UK PMI that is above our expectations would lead to a reduction in our estimated return of premium whilst a rebound below our expectations would lead to an increase in the estimated return of premium.

Customer numbers declined by 151k to 2,507k, the majority of which, was expected as we completed the referral of EEA customers to an alternative Bupa insurance company located in Ireland, Bupa Global Designated Activity Company (“BGDAC”), in preparation for Brexit. PMI customer numbers remained stable whilst UK Dental insurance grew.

Earned premiums reduced by £178.1m, of which £126.8m reflects the proportion of the return of premium for UK PMI customers that relates to premiums earned in 2020. The remaining reduction in earned premiums is due to the referral of EEA customers to BGDAC and a reduction in IPMI earned premium partially offset by an increase in earned premium from PMI.

We experienced mark to market losses in the first quarter after the uncertainty of COVID-19 led to a market shock, however, net financial income recovered to £1.0m (2019: £1.8m) over the remainder of the year.

During the year we repaid the £330m subordinated loan to Bupa Finance Plc (“BFplc”). A proportion of this was previously recognised as available capital for Solvency II reporting. Upon repayment of the loan we received a £130.0m capital injection from BFplc to ensure our solvency capital position was maintained.

Return of premium provision

To meet the pledge made to UK PMI customers we have established a return of premium provision.

We saw a reduction in reported claims while the independent hospitals supported the NHS and continued to see lower claims for the remaining months of 2020 as customers chose to delay the medical services they might ordinarily have undertaken. Our best estimate of the net reduction in UK PMI claims after considering COVID-19 related additional costs and impact to profits is £202.2m.

To calculate the return of premium provision we deduct an estimate of deferred claims that we expect to rebound from the net claim reduction. We estimate that £57.0m of UK PMI deferred claims will be made in 2021. This results in a provision of £145.2m.

The estimate of deferred claims expected to rebound might be revised upwards or downwards depending upon the level and trend of claims reported in 2021. If there is continued disruption of the healthcare system during 2021, it is possible that a material value of claims will be deferred into 2022. We will measure the level of deferred claims as the additional claims incurred in 2021 over and above that which we expect to arise in the ordinary course of business. Health insurance profitability has been demonstrated to experience low volatility and as such we can measure any such variance from normal levels of 2021 claims with reasonable confidence.

In addition to the rebound of deferred claims, the final return of premium payment may be impacted by any further significant claim disruption experienced in 2021 as a consequence of the pandemic continuing. Any reduction in claims, having regard for further deferred claims, will be estimated and provided for during 2021.

Any payment to customers will be treated as a return of premium, to which a refund of Insurance Premium Tax will be added that we will reclaim from HMRC.

Development

We responded quickly to the impact of the pandemic to support our insurance customers with their physical and mental health. We enhanced services to provide remote, direct access to GPs, physiotherapists and nurses, and consultants via video or phone.

Use of our Digital GP service for PMI customers has doubled since April with around 5,000 appointments per week. We also launched new remote services for fast detection of skin cancers and heart problems, expanded our chemotherapy at home service and introduced virtual oral assessments for dental insurance customers.

We saw a significant increase in IPMI customers using our Global Virtual Care app which provides remote access to a global network of doctors. Our enhanced Bupa Global mobile app, alongside our digital web services, has enabled more customers to manage their claims and policies online, resulting in 68.8% of our IPMI customers interacting with us through digital channels in 2020. We provided full cover for COVID-19 care, giving even greater reassurance of access to healthcare and support to our globally mobile customers.

Facing into the global pandemic forced us to think differently on how we supported our people, so they in turn could continue to serve our customers. We adapted our ways of working, reprioritised activity and acted quickly to ensure an increased focus on the health, safety and support of our people. Keeping our people and our workplaces safe is always a priority. We moved our people to remote working, by supplying equipment and technology to help them work effectively from home.

Engaging with our stakeholders (Section 172(1) statement)

The Board has a duty to achieve Bupa's purpose of helping people live longer, healthier, happier lives. It does this by having regard for the interests of our customers, our people, our relationship with our suppliers and the impact of our operations on the communities in which we operate, and to ensure that we maintain a reputation for high standards of business conduct.

Our key stakeholders are our customers, our people, our shareholder, our regulators, our suppliers and the communities we operate in. All key Board decisions take into account the impact on relevant stakeholders.

Increasingly, stakeholders are looking to understand our performance across multiple areas from financial performance to products and services, innovation, governance, workplace practices and corporate citizenship. The Board endeavours to gain an understanding of the perceptions and attitudes of each stakeholder group and the weight they give to different issues. Where the views of different stakeholder groups do not align, the Board must decide on the best course of action to promote the Company's long-term success.

The COVID-19 pandemic required us to adapt our approach to engaging with our stakeholders to reflect their changing needs and expectations in light of the crisis as a result of pandemic restrictions and different ways of working.

Customers

Customers are at the heart of our business. We aim to deliver truly outstanding, personalised customer experiences, ensuring great clinical outcomes and value for money.

The Risk Committee reviews the Conduct Risk Dashboard regularly, which includes key metrics to track how we are performing for our customers.

Key considerations for customers include:

- affordable health insurance that represents value for money;
- high quality products with broad coverage and high standards of care; and
- simpler and quicker access to services, such as through digital applications.

Under normal circumstances the Board would engage with customers through site visits, and reviews of data on customer satisfaction and its drivers. In 2020 the Board met 19 times, including 16 times virtually, with additional focus given to the value customers derive from their policies and support the Company can provide.

People

As a service organisation, our people are key to our business. We want our people to feel engaged and empowered to deliver great outcomes for our customers and be healthier and happier themselves.

The Conduct Risk Dashboard also includes key metrics to track how we are performing in relation to Culture and People. In addition, the Board discusses the results of the twice-yearly employee survey (People Pulse) which assesses engagement across the Company. Through the People Pulse every employee has the opportunity to participate and share their feedback openly. Participation improved by 3%pts to 88% with 2,552 employees from the Company's service company completing the survey. This provides insights to prioritise actions in support of key business drivers. In 2020 the survey introduced some new questions to capture feedback on inclusion and wellbeing, Environmental, Social and Governance ("ESG") and 'accountability to take action', as well as how well people felt supported and communicated with during the pandemic. These questions sit alongside questions relating to areas such as 'company prospects', 'empowerment', the Bupa Values and Bupa's Speak Up whistleblowing channel. The engagement score increased by 3pts to 74 in 2020.

Key themes for employees based on People Pulse results include:

- Company Prospects – being excited about Bupa's future;
- Customer focus – helping to deliver a great customer experience;
- Collaboration – focusing on efficient and effective working practices across teams; and
- Empowerment – feeling empowered to make decisions regarding their work.

The Board has focussed on supporting employees by considering their physical and mental wellbeing needs during the period that our people have been working from home. Our office buildings have also been made COVID-19 secure so that our people that wanted to were able to return to a safe environment.

Shareholder

The Company's immediate parent company is Bupa Finance plc, which has a number of listed debt securities in issue. Therefore, Bupa is required to operate in accordance with the relevant UK Listing Rules, Disclosure Guidance and Transparency Rules and the EU Market Abuse Regulation in respect of its announcements of financial results and operations.

The Board has a number of ways in which it engages with its ultimate shareholder, Bupa. These include:

- Adherence to the matters reserved for the Bupa Board;
- A current Bupa NED sits on the Board;
- Periodic attendance of Group Senior Management individuals, who exercise significant influence over the Company, at Board meetings;
- Annual attendance of the Board Chairman and Chief Executive Officer at the Bupa Board;
- Annual attendance of the Risk, Remuneration and Audit Committee Chairs at Bupa's equivalent Committees; and
- Adherence to Bupa's Subsidiary Governance Policy.

Regulators

The Company operates in a regulated environment. The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by both the Financial Conduct Authority ("FCA") and the PRA. Regulators ultimately aim to protect customers and ensure that they receive high levels of care and are treated fairly. This clearly aligns with our strategy to put our customers front and centre.

Regulators expect us to:

- maintain sufficient capital to back our insurance business;
- have robust and effective processes and controls in place to mitigate risks to protect our customers;
- provide a high-quality experience of our services; and
- ensure we operate in a sustainable way.

The Board have a regular programme of interaction with the PRA and FCA and engage with them on key Board decisions.

Suppliers

Suppliers are critical to delivering a high-quality service to our customers. We aim to treat our suppliers fairly and pay them within agreed timescales, holding ourselves to high standards of business conduct.

We work with our suppliers to ensure that they have effective controls in place to protect our customers' health and safety and the security and privacy of their data.

Communities and Environment

Our purpose of helping people live longer, healthier, happier lives extends to supporting our local communities and reducing our environmental impact.

We continued to address our carbon emissions and to procure renewable energy. As we work towards net zero carbon emissions, we offset emissions by investing in One Carbon World's reforestation and renewable energy projects that contribute to the UN's Climate Neutral Now initiative.

Our community contribution focused on mental wellbeing and practical COVID-19 recovery support through the work of the Bupa Foundation and enabling our people to volunteer time and skills. In 2020 more than a thousand teachers accessed free online wellbeing workshops via the Wellbeing for Educators programme. The Foundation continued its partnership with mental health charity Mind to help the mental wellbeing of 2.5m young people over the next three years; this included online resources to support mental health during the pandemic. We also were a launch partner for the Mental Health Sustainability Programme who help VCSE provider organisations.

The Foundation's work with schools also included a partnership with the National Literacy Trust to provide 15,000 copies of the Book of Hopes to 5,000 schools and Beyond Words, a writing for wellbeing programme for young people – this raised funds for Mind, the National Literacy Trust and Cheltenham Festival's education programme. The Foundation also made emergency grants to local charities supporting vulnerable people hardest hit by the pandemic.

Key decisions and their impact on stakeholders

The table below sets out a number of key decisions taken by the Board during the year, how stakeholder views were taken into account and competing interests balanced.

Board Decision	How we took stakeholders into account	Long-term implications
Setting our 3 Year Plan	**Customers, Regulators and Shareholder** The Board approves the annual budget and base operating plan for the following three years. The Board chose a three-year assessment period because it ties in with our internal strategic planning process. Our planning considers all important financial and regulatory measures over the period and stresses the key risks facing the Company. Stress and scenario testing is performed on the three year plan and reviewed by the Board to ensure the Company remains solvent and financially robust under adverse conditions.	The Plan aims to: – deliver outstanding experiences and outcomes for our customers – ensure our business is sustainable in the long-term – retain our competitive advantage by providing high quality products and services
Response to COVID-19	**Customers, Regulators and People** Following the outbreak of COVID-19, the Board continually reviewed its impact on customers and employees to ensure that appropriate measures could be taken to support them throughout the pandemic. For our customers, the Board regularly met to ensure customer value continued to be assessed and provided across our product lines. Measures were introduced to assist customers in financial distress. A commitment was also made to our UK PMI customers to return any exceptional financial benefit experienced by our UK PMI business line arising as a result of the pandemic. Virtual services have been introduced and expanded to help customers manage their physical and mental health from home. For our regulators, the Board regularly met to ensure it had oversight of the impact of COVID-19 on the company's finances. It was provided with the results of scenario stress tests and best estimate forecasts to ensure that the company had sufficient solvency in accordance with the agreed regulatory thresholds. The Board had oversight of the Company's resilience and business continuity measures and, additionally, acted to	The impact of the COVID-19 pandemic on the global economy and ways of life has been profound. The success in developing vaccines will hopefully enable a move to more normal conditions and support economic recovery over the coming years. The Company has remained resilient and well capitalised while also giving consideration to the value customers have been able to derive from our products and services.

	ensure customers derived value from their products, including providing support to those in financial distress. For our employees, the business ensured that the vast majority of our people who could work from home were provided with the necessary support and equipment. For the minority of those who needed to return to the office, we put additional policies and procedures in place to keep them safe.	
Investing in Information Technology	**Customers, People and Suppliers** We are investing significant amounts in information technology and security to protect our customers' privacy, digitise our customers' experience and ensure our suppliers meet appropriate standards for services provided to our customers. The Board considered this investment to be critical to the Company's future success and agreed that capital should be allocated to this activity in priority over investment in other initiatives. This also benefits our people by making their jobs easier and enabling them to spend more time on value-adding activities.	Cyber-security is an ever-present threat that constantly evolves and we need to invest to protect our customers' data and maintain their trust in the Company. Investing in digitisation will help the Company meet changing customer expectations to interact with us more digitally and make processes more efficient, in turn helping us provide affordable products.
Capital Funding and Dividends	**Customer, Regulator and Shareholder** On 17 September 2020, the Company repaid the £330m callable subordinated loan payable to Bupa Finance Plc ("BFplc") and BFplc subscribed for 130,000,000 Ordinary Shares of £1.00 each in the share capital of the Company at par, for a total subscription value of £130,000,000. The Board consider the necessary investment in business operations along with the financial strength of the Company, such as liquidity, solvency and capital, including under stressed conditions, before approving any dividend. In 2020 no dividends were paid to the shareholder to ensure an equivalent level of solvency capital was maintained after the repayment of the subordinated loan.	Prudent financial management supports the long-term success of the Company and its ultimate shareholder, Bupa, and motivates management to deliver strong and sustainable business performance aligned with Bupa's purpose: helping people live longer, healthier, happier lives. The refinancing provides a more efficient capital structure due to the loan having been subject to tiering restrictions under Solvency II.
Acquisition of CS Healthcare ("CSH")	On 21 May 2020 the Board approved that the proposed acquisition of the business of CSH proceed, subject to regulatory approval. Both the Company and Bupa Insurance Services Limited have acquired the business of CSH with the insurance policy assets and liabilities, office property and financial investments transferring to the Company. The transaction received regulatory approval on 17 December 2020 and completed on 1 January 2021.	The opportunity to grow the customer base of the Company and provide the policyholders of CSH with ongoing cover was considered to be aligned with our longer-term strategic goals.

Principal risks and uncertainties

Both the business performance and operations are subject to a number of risks and uncertainties. 2020 has witnessed a major and unprecedented upheaval to our society, the healthcare systems and economic conditions caused by the COVID-19 pandemic. For the UK, the uncertainty is compounded by the impacts of the Brexit deal and uncertainties over future trade agreements with other countries. With no precedent for this set of circumstances, there is a large range of potential outcomes possible that might impact the Company, our customer segments and our supply network. The Directors consider that the key risks and uncertainties relate to COVID-19, insurance risk, operational risk (including information security and privacy risks), investment risk, external market conditions, government and policy change, regulatory risk, Brexit and climate change.

Performance is monitored by the Board and senior management using operational, financial and other data. The Company Chief Risk Officer provides regular reporting to the Board Risk Committee on the risk profile of the Company and the key mitigation activities in place.

COVID-19 risk

The impact of COVID-19 on the Company introduces financial, operational and reputational risk including risks to operational resilience. COVID-19 scenario modelling has been performed monthly and reported to the Risk Committee and Board showing the extent of the disruption to independent healthcare services and the impact of the pandemic on the Company's three-year plan. The detailed modelling is conducted under a wide range of scenarios and sensitivities in response to the uncertainty due to the lack of data and experience to base the assumptions on. The prospective solvency positions are regularly monitored, and management actions are identified where required to ensure the Company remains within risk appetite.

The typical patterns of PMI demand are disrupted as the effect of COVID-19 alters customer demand. Increased global economic instability affects consumer and corporate affordability and company employee numbers, whilst the value of PMI in the event of a health crisis has potential to rise as an alternative way to access services if there are backlogs in public health systems caused by the pandemic. The Company has established a Financial Management Committee to provide advice and oversight of all key financial decisions affecting our customers, healthcare providers and business planning.

The Company has pledged to its UK PMI customers a commitment to pass back any exceptional financial benefit ultimately arising as a result of COVID-19, by rebate or other appropriate means. An independent third-party review has been commissioned to ensure that the allocation approach is fair and reasonable across our different customer groups.

It is unclear if the supply of independent healthcare will be significantly disrupted in the future due to further outbreaks of COVID-19. In the event that access to hospitals is materially impacted, customers will be advised how this will be treated under the commitment.

For operational risk considerations relating to COVID-19 please refer to the operational risk section below.

Insurance risk

The Company seeks to take insurance risk, in the natural course of business, within the Board's risk appetite. Insurance risk is that the frequency, size or timing of claims on insurance policies varies from that expected, leading to an unexpected impact on financial returns. Normally, the Company is exposed to a number of factors due to writing medical insurance business, including medical inflation, shifts in demographics, changes in population health, developments in healthcare delivery and technology, and catastrophes. Each of these factors could affect product pricing, reserving, and claim risk accumulation. In addition, general macroeconomic trends and changes in government policy could affect the lapse and persistency behaviour of current and prospective customers. During the pandemic, we have seen claims fall in part due to temporary reduced availability of provision and also due to changes in demand from customers. We are also seeing new causes of inflation from Personal Protective Equipment ("PPE") and reduced productivity in providers and we expect also that some conditions where treatment has been delayed will also be more expensive to treat.

The Company's size and experience enables it to achieve stability in provider contracting for UK operations and it benefits from the geographic diversification elsewhere. The Company uses its data and experience to develop products that meet customers' needs and are priced competitively and fairly. In addition, the operations apply controls to underwriting and claims settlement. A significant mitigating factor is that the vast majority of business written is for short-term risks, which enables regular opportunities for re-pricing in the event of changes in claims trends. Refer to management of insurance risk in note 22.

Operational Risk

The Company manages operational risks arising from its people, processes and systems through the three lines of defence model. First line management are responsible for identifying, managing, monitoring and reporting on risks, through documented policies and established processes and controls. The second line risk function provides oversight and challenge, while the third line provides independent assurance. Appropriate key controls are in place to mitigate potential risks and the Company continues to develop its risk and control culture, in order to embed risk management in the first line of defence.

Information security risks and those associated with non-compliance with data protection, privacy and information governance requirements remain key risks for the Company, as they are for all insurance companies. The Company continues to ensure that controls are in place and strengthened where necessary to address these risks, including enhancing our event monitoring and incident management.

The services provided by the Company are underpinned by information technology systems and infrastructure that enable the delivery of core processes and products. Failure of these systems may reduce the ability of the Company to deliver products and services to its customer base or increase the risk of information security breaches. In addition, the Company has increased its focus on monitoring of third-party supplier risks over recent years and has significantly improved its capability in this area.

The Company's IT services are provided by teams within the wider Bupa Group which are overseen by the Company's Chief Information Officer's ("CIO") team. These IT teams are responsible for the development, maintenance and monitoring of IT services. A programme of work is in place to ensure the continued development and enhancement of all IT services to provide the level of services required by the business and adequately protect sensitive customer and business data. In response to COVID-19, our office-based staff have largely been working from home, enabled by technology to ensure that we could continue to serve our customers and work together effectively. We have also rolled out remote services such as Digital GP and consultant appointments and diagnostics from home. The longer-term impact of homeworking on our employees has been assessed and appropriate support and checks put in place for our people.

An operational resilience framework exists to support continuity of business services from potential significant disruptions or failures to effectively implement significant change. The Company is focused on ensuring it has the right levels of experience and robust succession plans to simultaneously manage the business and deliver effective change management in pursuit of its strategic objectives. Risks in relation to the capacity and capability of the business to achieve this are actively managed.

Investment risk

Our long-term financial strategy is to facilitate growth without undue investment risk. The Company manages investment risk through setting risk appetites with respect to liquidity, interest rate and credit risk in order to reflect the short-term nature of the insurance liabilities and limit the investment risk charge contribution to the Company's Solvency Capital Requirement ("SCR").

This is achieved through primarily holding liquid investments with highly rated counterparties. Where the Company has invested in a limited portfolio of return seeking assets ("RSA"), the Company uses value at risk analysis to quantify and manage risk against these investments. Following market value reductions in the RSA portfolio at the start of the COVID-19 pandemic, the Company undertook de-risking activities which included disinvestments in the RSA portfolio to limit the downside risks of prolonged global economic uncertainty.

Assets are largely held in line with the expected maturity profile of our insurance liabilities to ensure that we are able to meet liabilities as they fall due.

ESG criteria also influence investment practices, such as through the exclusion of certain types of sectors from the Company's investment portfolio. We ensure that ESG factors are included in the investment decision-making process including the use of external ESG ratings when considering new funds.

Market and competitor activity

PMI markets are highly competitive with companies seeking to attract customers through new products and benefits. There is also demand for innovation to meet the different needs of corporate customers and individuals, with increasing customer expectations on the use of technology to provide healthcare services. The Company keeps its competitive position in each of its markets under continuous scrutiny and regularly reviews strategic and tactical objectives.

Government and policy change

As part of the strategic planning process, analysis is performed on the impact of possible political change on the Company's business model, such as changes in Insurance Premium Tax in the UK. The impact of COVID-19 on public finances has increased government pressures for additional tax revenue. The Company continues to engage with policymakers and seeks to maintain a constructive dialogue with governments in its main areas of operation, promoting the benefits of high-quality, private healthcare alongside public provision.

Regulatory Risk

The Company seeks to comply with all regulatory standards and to maintain awareness of, and where possible, anticipate regulatory change. Its principal financial regulators are the PRA and the FCA, with which the Board and senior managers maintain a close supervisory relationship. Both regulatory authorities have a significant regulatory agenda with increased focus on insurers. Key areas of interest include customer protection, particularly vulnerable customers, operational resilience, culture and governance, fair pricing and value. The individual accountability regimes require regulated firms and senior management to act appropriately and with due care. The Company seeks to mitigate the risk that it may fail to meet regulatory expectations through an effective governance framework, particularly the three lines of defence model which helps to ensure the identification and management of relevant requirements and associated risks.

Brexit

The Company has continued to review and manage the risks associated with the UK leaving the EU, with Brexit planning overseen and co-ordinated at executive level. All contingency plans have been designed to protect Bupa's position from a customer, people, performance, regulatory and reputational perspective. Consideration has been given to the risks that Brexit raises for the Company's existing customers and the risk to the proposition due to any potential impact of Brexit on healthcare providers, including disrupted access to and increased costs of medication.

The Stress and Scenario Testing ("SST") exercise which assesses the impact on the Company's three-year plan, this year considered the effect of a "No Deal" Brexit scenario and the economic downturn that would follow. Whilst a deal was reached in December, the impacts at a macroeconomic, regulatory and political level remain unclear and the insights from the SST exercise support our ongoing monitoring of the associated risks. Further analysis has been performed to evaluate the risks to the Company's assets including credit risk on the portfolio of investments and foreign exchange risk. These risks are monitored, by the Board and senior management, both individually and collectively, and the Company has identified a range of mitigating actions to respond to the uncertainty of Brexit.

EEA customers that renewed between 29 March 2019 and 29 March 2020 were offered renewal terms with BGDAC. This was a successful mitigating action with stronger retention than forecast.

The Company has several branches in EEA states. These are now closed to new business and will be decommissioned in due course.

Climate change

Climate change is one of the major risks we face as a society. The Company has minimal direct investment and insurance exposures in respect of the physical risks associated with climate change. However, the Company may be impacted by adverse economic outcomes from the transition to a lower-carbon economy if its products become unaffordable for customers. The impact on health, and hence claims experience, will manifest itself over a longer time frame. The ability to reprice policies annually provides a significant mitigant to adverse claims and expense experience.

The Company monitors and assesses the potential financial and operational impacts of climate change as part of its ORSA process, through emerging risk horizon scanning and SST. The Climate Change Committee established in 2019 continues to manage the risks associated with climate change and track actions recommended by the Board Risk Committee. Additionally, a Bupa Group-lead programme is in place to ensure compliance with regulatory requirements in relation to risk management framework, disclosure and SST. The Company's Chief Risk Officer is responsible for overseeing the identification and management of the financial and operational impacts of climate change, and is accountable for reporting to the Board under the Senior Managers Regime. The Company is committed to being a responsible and sustainable business and actively promotes positive environmental practices. At the end of 2020 the Company is fully offsetting all of its direct carbon usage.

Solvency

The Company maintains regulatory capital in line with its capital management objective as set out in note 23.

The Company is subject to the requirements of the SII Directive and must hold sufficient Eligible Own Funds to cover its SCR. The SII Eligible Own Funds as at 31 December 2020 were £512m (2019: £452m), well in excess of the SCR.

Solvency II Capital position[1]

	2020 £'m	2019 £'m
Eligible Own Funds	**512**	452
Solvency Capital Requirement	**240**	264
Surplus	**272**	188
Solvency ratio	**213%**	171%

Solvency II Eligible Own Funds[1]

	2020 £'m	2019 £'m
IFRS Equity attributable to shareholders	**478**	215
Valuation differences	**34**	41
Subordinated debt	**-**	344
Capital tiering restriction	**-**	(148)
Solvency II Eligible Own Funds	**512**	452

Components of Eligible Own Funds[1]

	2020 £'m	2019 £'m
Unrestricted Tier 1	**512**	256
Restricted Tier 1	**-**	64
Tier 2	**-**	132
Total	**512**	452

Solvency II Capital Requirements

The SCR is calculated in accordance with the Standard Formula specified in the SII legislation. The Company has obtained approval from the Prudential Regulation Authority (PRA) to substitute the insurance premium risk parameter in the formula with an Undertaking Specific Parameter (USP) which reflects the Company's own loss experience. The 2020 claims experience has not been included in the USP data set. It is management's judgement that the exceptional volatility experienced in 2020 claims as a result of COVID-19 is not representative of future premium risk.

Analysis of the Solvency Capital Requirement[1]

% of diversified SCR	**2020**	2019
Premium & Reserve Risk	**38.0%**	40.0%
Operational Risk	**23.0%**	23.0%
Market Risk	**25.0%**	20.0%
Lapse Risk	**10.0%**	13.0%
Counterparty Risk	**3.0%**	2.0%
Catastrophe Risk	**1.0%**	2.0%
Total	**100%**	100.0%

[1]The Solvency Capital Position and related disclosures are estimated values and are unaudited at the time of approval of the financial statements

Future Outlook

Whilst noting the positive early stages of vaccine deployment we are now seeing, it is clear COVID-19 will continue to impact economies, health systems and our business lines over the medium to long term. We are continuing to adapt and innovate by investing in digital services to enable customers to access their healthcare remotely and receive fast, high-quality treatment whenever they need.

The uncertain economic and healthcare environments could impact financial performance and we expect a rebound of deferred claims, which reduced claims costs in 2020. We remain financially strong with a stable solvency capital position and are well placed to address these challenges.

Registered office:
1 Angel Court
London
EC2R 7HJ

3 March 2021

F Harris
Director

Directors' Report
for the year ended 31 December 2020

Results and dividends

The profit for the financial year after taxation amounted to £133.4m (2019: £91.8m). The Directors declared no dividends during the year ended 31 December 2020 (2019: £95.4m).

Impact of Companies (Audit, Investigations and Community Enterprise) Act 2004

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company.

Directors

Details of the present Directors and any other persons who served as a Director during the financial year are set out below

P J Evans	
F Harris	
S Kenton	(appointed 27 January 2021)
M C Ledlie	
S J O'Connor	
M J O'Dwyer	(resigned 18 August 2020)
A P Perry	
R A Phipps (Chairman)	
D W Smith	
Bupa Secretaries Limited (Company Secretary)	

Employees

Details of the number of persons employed and gross remuneration are contained in note 4 to the financial statements. Every effort is made by the Directors and management to inform, consult and encourage the full involvement of staff on matters concerning them as employees and affecting the Company's performance.

Employment of disabled persons

The Company is committed to providing equal opportunities to employees. The employment of disabled persons is included in this commitment and the recruitment, training, career development; and promotion of disabled persons is based on the aptitudes and abilities of the individual. Should employees become disabled during employment, every effort would be made to continue their employment and, if necessary, appropriate training would be provided.

Employment policy

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting performance through management channels. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance.

The Bupa People Manager Expectations clearly sets out management expectations, including the need to listen to employees' needs and issues. Speak up provides the opportunity for all employees to raise their views anonymously. The approach to managing performance includes setting performance expectations. Schemes exist to incentivise, recognise and reward performance.

Stakeholders

A summary of how directors have engaged with suppliers, customers and others in a business relationship with the Company is included in the Section 172 statement in the Strategic Report.

Corporate governance arrangements applied by the company

As part of Bupa's commitment to excellence, the Company aims, where appropriate, to operate to the same governance standards as are required of UK FTSE 100 companies and therefore chooses to apply the UK Corporate Governance Code 2018 (the Code). Throughout 2020 we applied the main principles and complied with all the provisions in the Code, to the extent they are applicable to a subsidiary company.

The table below sets out how we have complied with the Principles of the Code during 2020.

Principle	How we apply the Principle
1. Board Leadership and Company Purpose	
A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	The Board is responsible for the long-term sustainable success of the Company for the benefit of its customers and wider stakeholders, now and in the future. The Board works to achieve this by: – providing clear leadership in setting the Company's strategy, culture and risk appetite to achieve its purpose; – overseeing management's implementation of strategy within a prudent and effective governance structure using a three lines of defence model; – receiving regular management information on customers and their views of the Company and our products; and – reviewing the results of employee surveys and interacting with our people through site visits.
B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	The schedule of matters reserved to the Board includes: – Setting the overall direction of the business having regard to Bupa's long-term objectives, business strategy, purpose, values, standards and culture; and –Reviewing performance in the light of the Company's strategy, objectives, business plan and budgets and ensuring that any necessary resources are in place in order to meet these objectives The Board holds regular strategy meetings throughout the year with updates on progress and deep dives. The Board receives regular updates on culture and conduct throughout the year.
C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	The Board annually approves the Company's three-year plan, ensuring that sufficient resources are available to achieve the Company's objectives. The Board retains ultimate responsibility for risk management and internal controls, with detailed oversight carried out by the Audit and Risk Committees. On the recommendation of the Risk Committee, the Board sets the Company's Risk Appetite and Risk Management Framework. These set out the principal risks facing the Company and the nature and extent of risk the Board is willing for the Company to take in order to achieve the its strategic objectives. The Company's enterprise risk policies are approved by the Board or relevant Committee and overseen by the Risk Committee.
D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	We are a customer-focused business reliant on our people to deliver a great service. The Board receives regular management information and considers the impact of decisions on relevant stakeholders. There is a programme of engagement with our key stakeholders: customers, our people, our shareholder and our regulators.
E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concerns.	The Risk Committee, through the Conduct Risk Dashboard, receives detailed quarterly management information which includes metrics on people and culture issues. During the year, the Bupa Board approved revised people and corporate responsibility and sustainability strategies. These include ensuring that the Group's workforce policies and practices are consistent with our values and support our long-term sustainable success. The Board receives regular updates on the issues reported through Speak Up, and on investigations and actions taken. The Audit Committee annually reviews the Group's Speak Up Policy to ensure it is sufficiently robust and operating effectively.

2. Division of Responsibilities	
F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	The Chairman leads the Board in an open and transparent manner, encouraging debate and challenge. He plays a pivotal role in fostering the effectiveness of the Board and the individual directors both in and outside the Boardroom. The Chairman works with the Company Secretary to ensure that sufficient time is available to discuss the agenda items for each Board meeting and to ensure that papers are of a high standard and circulated in a timely manner.
G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	The Board comprises the CEO, CFO, Chairman (who was independent on appointment), and four independent Non-Executive Directors (one of whom sits on the Bupa Board). The roles of the Chairman and CEO are separate with distinct accountabilities set out in their role profiles and Statements of Responsibility required under the Senior Managers & Certification Regime. The CEO is responsible for the day-to-day leadership and management of the business, in line with the risk appetite and annual and long-term objectives approved by the Board. The CEO cascades his authority through a delegated authority framework. The Non-Executive Directors provide an independent view on the running of our business, governance and boardroom best practice. They oversee and constructively challenge management in its implementation of strategy within the Company's system of governance and the risk appetite set by the Board. Further details are contained in the Company's Management Responsibilities Map.
H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Prior to their appointment as a director (and on any subsequent re-appointment for a further term), the Nomination Committee considers whether each Non-Executive Director has sufficient time to devote to their role with the Company. This is re-assessed by the Board annually and in light of any changes to a Non-Executive Director's external commitments during the year.
I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	The Company Secretary advises the Board on company law and corporate governance matters. The Company Secretary works with the Chairman and Committee chairs to ensure that the right matters are escalated to the Board and Committees at the appropriate time and that sufficient time is devoted to strategic matters. The Company Secretary works with management to ensure that the Board receives papers of a high quality in a timely manner. The Company Secretary arranges Directors' induction and ongoing training and supports the succession planning for Non-Executive Directors and the recruitment of new Non-Executive Directors. The Company Secretary is responsible for ensuring compliance with the Group's Subsidiary Governance Enterprise Risk Policy which sets minimum standards of corporate governance across the Bupa Group. The appointment and removal of the Company Secretary is a matter reserved to the Board.
3. Composition, Succession and Evaluation	
J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	The Nomination Committee reviews the balance, structure and composition of the Board and its Committees and leads the process for appointments to the Board. It considers Board succession planning, with planning for senior management succession being carried out by the Board. All Board recruitment takes into account the Board Diversity Policy.
K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given	The Nomination Committee reviews the balance, composition and structure of the Board, including reviewing the skills of each Non-Executive Director.

	to the length of service of the board as a whole and membership regularly refreshed.	In considering succession plans for the Board, the Nomination Committee also keeps the length of service of each Board member under review, recommends the re-appointment of the Non-Executive Directors and any extensions to their term and ensures that Board recruitment is commenced in a timely manner to regularly refresh the membership of the Board.
L.	Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	The annual board evaluation considers the composition and diversity of the Board and how effectively members work together. In 2020, a questionnaire-based Board evaluation was carried out which assessed the effectiveness of the Board and its Committees. The Chairman separately led an evaluation of each Director, with the Senior Independent Director leading the evaluation of the Chairman.
	4. Audit, Risk and Internal Control	
M.	The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	The Board delegates detailed oversight of the internal audit function and the external auditor to the Audit Committee, together with oversight of the Company's system of internal controls over the integrity of the Annual Report and Accounts. On the recommendation of the Audit Committee, the Board reviewed and approved the 2020 Annual Report and Accounts. The Audit Committee leads the annual processes for assessing the effectiveness of the internal and external audit functions.
N.	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	The Audit Committee reviewed the 2020 Annual Report and Accounts in early 2021 and was satisfied that it presents a fair, balanced and understandable assessment of the Company's position and prospects. It reported its findings to the Board.
O.	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	An annual assessment of compliance with the enterprise risk policies is undertaken by management, overseen by the Risk function and reported on to the Audit and Risk Committees. The Risk and Audit Committees monitor the Company's risk management and internal control systems on behalf of the Board on a continuous basis and the Risk Committee reviews the Company's principle risks and recommends and changes to risk appetite to the Board.
	5. Remuneration	
P.	Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.	The Company applies the Bupa-wide remuneration policy to all its employees. This remuneration policy, set by the Group Remuneration Committee ("Group RemCo"), is designed to deliver market-competitive remuneration to promote the long-term success of Bupa and link reward to Bupa's strategic goals and purpose while promoting a prudent approach to risk. In assessing incentive outcomes, the Company's Remuneration Committee and the Group Remuneration Committee take into account actions and recommendations from executive and non-executive channels for the year to determine whether appropriate risk events have been recognised and dealt with accordingly.
Q.	A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	The Company's Remuneration Committee provides its view, informed by considerations including their oversight of the Company, regulatory requirements and their knowledge of best practice, to the Group RemCo regarding the on-going appropriateness and relevance of the Bupa-wide remuneration policy, which the Group RemCo will consider when considering amendments to the remuneration policy. No Director is involved in deciding their own remuneration outcome.
R.	Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The Company's Remuneration Committee governs the remuneration of key executives and considers if results have been achieved in a way that aligns with Bupa's values and with sustainable underlying business performance. The Company's Remuneration Committee is comprised of independent non-executive directors and there is cross-membership between the Company's Risk Committee and the Remuneration Committee. The Company's Remuneration Committee has robust discussions on remuneration outcomes for the key executives, taking into account all relevant internal and external factors to ensure that any exercise of the Committee's discretion is suitable and justifiable.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that:

– So far as that each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
– Each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

External Auditor re-appointment

Subject to approval by Bupa's Association Members at the 2021 annual general meeting, it is proposed that PwC will be appointed as the Company's auditor with effect from the audit for the financial year ending 31 December 2021. To ensure a smooth transition from KPMG, PwC has shadowed KPMG during the audit of the financial year ended 31 December 2020.

Registered office:
1 Angel Court
London
EC2R 7HJ

3 March 2021

F Harris

Director

Statement of Directors' Responsibilities
for the year ended 31 December 2020

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the State of Affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

— select suitable accounting policies and then apply them consistently;
— make judgements and estimates that are reasonable and prudent;
— state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
— assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
— use the going concern basis of accounting unless they either intend to liquidate to Company or to cease operations or have no realistic alternative to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's corporate and financial information included on the Bupa Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Bupa Insurance Limited
for the year ended 31 December 2020

1. Our opinion is unmodified

We have audited the financial statements of BUPA Insurance Limited ("the Company") for the year ended 31 December 2020 which comprise the Profit and loss account and Statement of comprehensive income, Balance Sheet, Statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the regulated entities audit committee.

We were first appointed as auditor by the directors on 7 June 2000. The period of total uninterrupted engagement is for the 21 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: financial statements as a whole		£5.5m (2019: £7.1m) 5% of normalised profit before tax (2019: 5% of normalised profit before tax)
Key audit matters		**vs 2019**
Recurring risks	Valuation of gross technical provisions	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. In prior years, we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. As a result of developments since the prior year the relative significance of this matter to our audit work is reduced. Accordingly, we no longer consider this a key audit matter. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of gross technical provisions (£1,333 m; 2019: £1,223m) *Refer to page 30 (accounting policy) and pages 41 - 44 (financial disclosures).*	**Subjective valuation:** The valuation of gross technical provisions for the Company comprises claims outstanding and provisions for unearned premiums. As in the prior years, management have valued claims outstanding using a consistent actuarial reserving methodology and a margin over the best estimate and the liabilities are of short-term nature. We consider the risk to have increased in the current year in light of the business and economic disruption caused by the Covid-19 pandemic. In the UK market, a public commitment has been made to pass back any exceptional financial benefit ultimately arising as a result of COVID-19 to UK private medical insurance customers and this has created a constructive obligation. Therefore, the Company has made provision for the best estimate of the expected return of premium to their customers which is recorded as a reduction to the gross written premiums in the year and within provisions for unearned premiums. In making the estimate of the expected return of premium the Company has made an assumption of the future claim experience and which has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements, note 17, discloses the sensitivity estimated by the Company. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of gross technical provisions has a degree of estimation uncertainty as disclosed in notes 17 and 22 of the financial statements.	Our procedures included: - **Controls design and observation**: testing the design, implementation and operating effectiveness of the key controls over the provisioning process, including controls over the completeness and accuracy of the data supporting key calculations, such as the data in respect of current and historical claims; - **Our actuarial expertise:** using our own actuarial specialists, inspecting the claims reserving report and return of premium provision calculation, evaluating and challenging the assumptions relating to current and future experience, including cost inflation and medical trends, and margin estimates and considering the changes in claims pattens as a result of the Covid-19 pandemic and Covid-19 disruption rates applied. This is done by comparing them to expectations based on the Company's historical experience, current trends and our own industry knowledge; - **Sensitivity analysis:** considering sensitivity analyses completed by the Company to assess the adequacy of provisions in the event of severe but possible adverse deviations in key assumptions; - **Individual re-performance:** calculating our own estimate of the liability for private medical insurance claims using the Company's data, comparing to the liability calculated by the Company, and considering the impact of any significant differences; - **Tests of detail:** performing reconciliations between the claims data recorded in the policy administration systems, and the data used in the actuarial reserving calculations to ensure the integrity of the data used in the actuarial reserving process. We compared the claims data used in the return of premium provision calculation to the Company's board approved business plan. We also compared samples of claims outstanding and claims paid, to appropriate documentation, in order to test the accuracy and valuation of individual claims provisions and data used in the actuarial reserving calculations; - **Assessing Transparency:** assessing transparency: assessing whether the disclosures in relation to the valuation of gross technical provisions are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions. **Our results** — We found the valuation of gross technical provisions to be acceptable (2019 result: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £5.5m (2019: £7.1m), determined with reference to a benchmark of profit before tax, normalised to exclude Covid-19 effects, of which it represents 5% (2019: 5% of normalised profit to exclude non-recurring project costs and release of prior period claims provisions).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

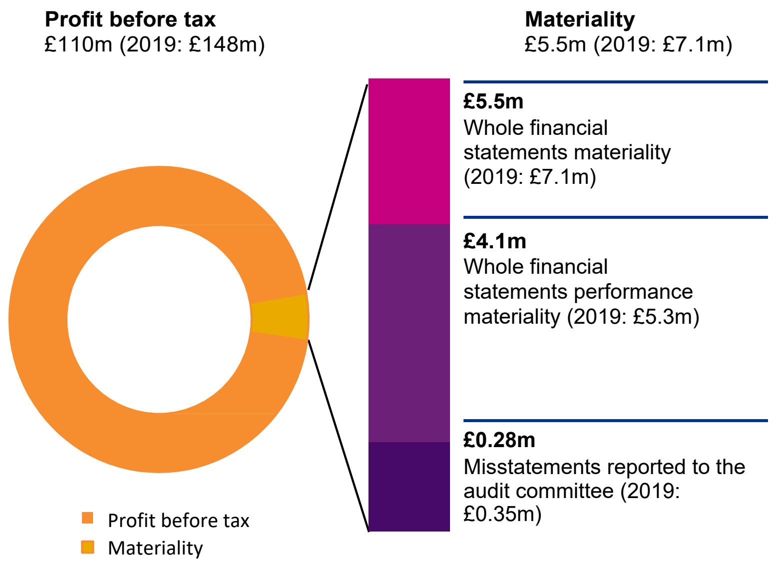
Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £4.1m (2019: £5.3). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

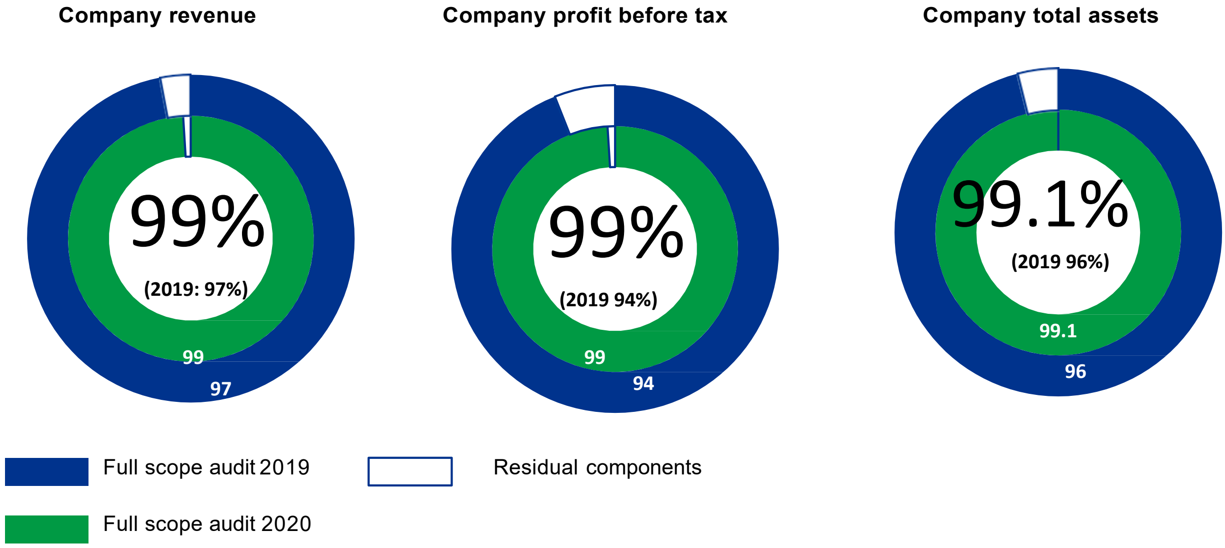
We agreed to report to the Regulated Entities Audit Committee any corrected or uncorrected identified misstatements exceeding £0.28m (2019: £0.35m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the 14 Company's reporting components, we subjected 6 (2019: 6) to full scope audits. For the residual 8 components, we performed analysis at an aggregated Company level to re-examine our assessment that there were no significant risks of material misstatement within these.

We instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. We approved the component materiality, which ranged from £1.6m to £4m (2019: £2m to £5.3m), having regard to the mix of size and risk profile of the Company across the components. The work on all components in scope was performed by component auditors.

Video and telephone conference meetings were held with these component auditors. At these meetings, the findings reported to us were discussed in more detail, and any further work required by us was then performed by the component auditor.





4. Going concern

The directors have prepared the financial statements 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 financial statements ("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 impacts from the Coronavirus pandemic.

We also considered less predictable but realistic second order impacts and developments such as a prolonged economic downturn and the resulting wider impacts and macroeconomic events.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from this risk against the level of available financial resources indicated by the Company's financial forecasts.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies. We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:
— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
— 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; and
— we found the going concern disclosure in note 1 to be acceptable.

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.

5. 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, the audit committee, internal audit, the risk function 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.
- Reading Board, Risk committee, Remuneration committee and Audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication to component audit teams of relevant fraud risks identified at the Company level and request to component audit teams to report to the group audit team any instances of fraud that could give rise to a material misstatement at Company level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that the Company’s management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the return of premium provision.

On this audit we do not believe there is a fraud risk related to revenue recognition because the Company’s premium is earned over a straight line across the insured period, and there is no judgement involved.

We also identified a fraud risk related to valuation of return of premium provision. Further detail in respect of this area is set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:
- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual or unrelated accounts, post-close journals with little or no explanation and journals with certain keywords.
- Assessing significant accounting estimates for bias.

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 financial statements from our general commercial and sector experience, and through discussion with the those charged with governance and management (as required by auditing standards), and from inspection of the Company’s regulatory and legal correspondence and discussed with those charged with governance 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. This included communication to component audit teams of relevant laws and regulations identified at the Company level, and a request for component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Company level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and regulatory capital and liquidity legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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 financial statements, for instance through the imposition of fines or litigation or the loss of the Company’s license to operate. We identified the following areas as those most likely to have such an effect: financial conduct regulations, and regulatory capital and liquidity recognising the financial and regulated nature of certain 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, if any. 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 financial statements, 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 financial statements, 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.

6. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 18, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are 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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Thomas Tyler (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peter's Square Manchester

M2 3AE

3 March 2021

Profit and Loss account and Statement of Comprehensive Income

for the year ended 31 December 2020

TECHNICAL ACCOUNT	Notes	2020 £'000	2019 £'000
Revenues			
Gross premiums written	2	**2,158,105**	2,328,793
Outward reinsurance premiums		**(107,342)**	(88,867)
Premiums written, net of reinsurance	2	**2,050,763**	2,239,926
Change in the gross provision for unearned premiums		**24,013**	22,537
Reinsurers' share of change in the gross provision for unearned premiums		**5,339**	(4,228)
		29,352	18,309
Net premiums earned	2	**2,080,115**	2,258,235
Other technical income, net of reinsurance		**7,502**	4,570
Total revenues		**2,087,617**	2,262,805
Gross claims paid		**(1,400,953)**	(1,728,806)
Reinsurers' share of claims paid		**60,918**	67,190
Gross claims paid net of reinsurance		**(1,340,035)**	(1,661,616)
Gross change in the provision for claims		**3,305**	38,835
Reinsurers' share of change in the provision		**(454)**	(110)
		2,851	38,725
Net claims incurred	2	**(1,337,184)**	(1,622,891)
Net operating expenses	3	**(585,949)**	(531,629)
Total claims and expenses		**(1,923,133)**	(2,154,520)
Profit before taxation, financial income and expense		**164,484**	108,285
NON-TECHNICAL ACCOUNT			
Investment income	5	**7,447**	17,513
Unrealised gains on investments		**39,388**	22,477
Investment expenses	6	**(22,968)**	(26,019)
Unrealised losses on investments		**(22,874)**	(12,152)
Net financial income		**993**	1,819
Profit before taxation expense		**165,477**	110,104
Taxation on profit on ordinary activities	8	**(32,108)**	(18,273)
Profit for the financial year		**133,369**	91,831
Total comprehensive income for the year		**133,369**	91,831

All profits are derived from continuing operations.

Notes 1-26 form part of these financial statements.

Balance Sheet
for the year ended 31 December 2020

ASSETS	Notes	2020 £'000	2019 £'000
Investments			
Investment property	9	**54,956**	54,950
Land and buildings	10	**15,854**	16,128
Financial investments	11	**943,711**	849,304
		1,014,521	920,382
Reinsurers' share of technical provisions			
Provision for unearned premiums	17	**29,754**	29,846
Claims outstanding	17	**9,162**	9,758
		38,916	39,604
Debtors			
Debtors arising out of direct insurance operations:			
Policyholders		**563,276**	608,229
Intermediaries		**1,454**	1,510
Debtors arising out of reinsurance operations		**158,310**	179,458
Other debtors	12	**62,086**	63,488
		785,126	852,685
Cash at bank and in hand	13	**185,396**	165,316
Prepayments and accrued income			
Deferred acquisition costs	14	**79,336**	77,000
Other prepayments and accrued income		**4,957**	3,454
		84,293	80,454
Total assets		**2,108,252**	2,058,441

Notes 1-26 form part of these financial statements

Balance Sheet (continued)
for the year ended 31 December 2020

EQUITY AND LIABILITIES	Notes	2020 £'000	2019 £'000
Capital and reserves			
Called up share capital	15	**187,209**	57,209
Profit and loss reserve		**291,199**	157,830
Total capital and reserves		**478,408**	215,039
Subordinated liabilities	16	**-**	335,990
Gross technical provisions			
Provisions for unearned premiums	17	**1,119,660**	1,004,618
Claims outstanding	17	**213,157**	218,030
		1,332,817	1,222,648
Provisions for other risks	18	**3,484**	5,156
Deposits received from reinsurers		**8,064**	5,657
Creditors			
Creditors arising out of direct insurance operations		**23,079**	9,582
Creditors arising out of reinsurance operations		**66,488**	72,782
Deferred taxation	19	**2,945**	2,199
Deferred reinsurance commission		**708**	433
Other creditors	20	**176,782**	173,246
Leases liabilities	21	**15,477**	15,709
		285,479	273,951
Total liabilities		**1,629,844**	1,843,402
Total equity and liabilities		**2,108,252**	2,058,441

Notes 1-26 form part of these financial statements

These financial statements were approved by the Board of Directors on 3 March 2021 and were signed on its behalf by:

F Harris
Director

P J Evans
Director

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital	**Profit and loss reserve**	**Total**
	£'000	**£'000**	**£'000**
Balance as at 1 January 2020	**57,209**	**157,830**	**215,039**
Profit for the year	**-**	**133,369**	**133,369**
Transactions with owners recorded directly in equity			
Issue of share capital	**130,000**	**-**	**130,000**
As at 31 December 2020	**187,209**	**291,199**	**478,408**

	Share capital	Profit and loss reserve	Total
	£'000	£'000	£'000
Balance as at 1 January 2019	57,209	161,399	218,608
Profit for the year	-	91,831	91,831
Transactions with owners recorded directly in equity			
Dividends paid	-	(95,400)	(95,400)
As at 31 December 2019	57,209	157,830	215,039

Notes 1-26 form part of these financial statements.

1 Basis of Preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006. The Company has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As the Company is a wholly owned subsidiary undertaking of The British United Provident Association Limited (Bupa), a company registered in England and Wales, which publishes consolidated accounts, the Company has not included details of transactions with other Bupa Group companies which are subsidiary undertakings of Bupa.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Statement of cash flows and related notes;
- Related party transactions with fellow Bupa Group companies;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The financial statements are presented in sterling, which is also the Company's functional currency, rounded to thousands.

1.1 Changes in accounting policies

There have been no changes in accounting policy during the year, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

Transitional impact of IFRS 16 to the 2019 comparative

The Company adopted IFRS 16 Leases with a date of initial application of 1 January 2019. The Company applied IFRS 16 using the modified retrospective approach, where the right-of-use assets equal the lease liabilities on transition, adjusted by the amount of any prepayments and lease incentives received. The cumulative effect of initially applying IFRS 16 was recognised as an adjustment to the opening balance of retained earnings. In applying IFRS 16 on transition, the Company used the following practical expedients permitted by the standard:

- The Company elected not to reassess whether a contract is or contains a lease as defined in IFRS 16 at the date of initial application. For contracts entered into before the transition date, the Company relied on its assessment made when applying IAS 17 and IFRIC 4. Operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were accounted for as short-term leases.
- The exclusion of initial direct costs for the measurement of the right-of-use asset at transition date.

On transition to IFRS 16 on 1 January 2019 prepayments relating to leases were all reclassified to the right-of-use asset.

The impact of implementing IFRS 16 on 1 January 2019 is set out in the following table:

	Remeasurement adjustments £'000	Reclassifications £'000	**Total £'000**
Land and buildings (right-of-use assets)	15,732	247	**15,979**
Other debtors	-	(247)	**(247)**
Lease liabilities	(15,732)	-	**(15,732)**
Total impact on net assets	-	-	**-**

1.2 Going concern

The Directors have conducted an assessment of the Company's going concern status based on its current position and forecast results. The going concern assessment has been made with consideration to the principal impacts and risks posed to the Company by COVID-19. As part of their assessment of the Company's ability to continue as a going concern including any associated impact on liquidity, regulatory capital and ability to meet obligations; the Directors looked at our financial performance, capital management, cash flow, solvency and future outlook.
The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future including under severe but plausible scenarios. Under such scenarios, significant short-term reductions in profitability arise, however the Company would still remain within its risk appetites for regulatory solvency and liquidity. Additional management actions would allow the downside impact to be further mitigated by reducing expenditure, reducing dividends to the

Company's parent or divesting investments. The Directors do not consider that COVID-19 changes the conclusion of the Company's going concern assessment. The Company is well capitalised and is expected to remain so over the Company's three-year planning horizon. Management has conducted a detailed assessment of the current position and forecast results and has concluded that the Company has adequate resources to operate for at least the next twelve months from the approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Strategic Report, Directors' Report and Financial Statements.

1.3 Foreign currencies

a) Foreign branches

The activities of the foreign branches are carried out as an extension of the Company. All foreign branches have a sterling functional currency.

b) Foreign transactions

Transactions in foreign currencies other than the functional currency of the Company are translated to the respective functional currency of the Company. Realised exchange differences arising on transactions of foreign currency amounts are recorded in the Profit and Loss account.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the Balance Sheet date; the resulting foreign exchange gain or loss is recognised in operating expenses, except where the gain or loss arises on financial assets or liabilities and then it is presented in financial income or expense as appropriate. Non-monetary assets and liabilities denominated in a foreign currency at historic cost are translated using the exchange rate at the date of the transaction; no exchange differences therefore arise. Non-monetary assets and liabilities denominated in a foreign currency which are held at fair value are translated using the exchange rate ruling at the date that the fair value was determined.

1.4 Investment properties

Investment properties are physical assets that are not occupied by the Company and are leased to Bupa Group companies to generate rental income or held by the Company for capital appreciation or both.

Investment properties are measured at fair value, determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location.

In an active market, investment properties are valued annually by an independent valuer, holding a recognised and relevant professional qualification, and with recent experience in the location and category of investment property being valued.

Any gain or loss arising from a change in the fair value is recognised in the Profit and Loss account within financial income and expense.

1.5 Provisions for other risks

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Although provisions are made where payments can be reliably estimated, the amounts provided are based upon a number of assumptions that are inherently uncertain and therefore the amount that is ultimately paid could differ from the amount recorded.

1.6 Basis of accounting for underwriting activities

Underwriting activities are accounted for on an annual "accident year" basis.

a) Other technical income

Other technical income relates to outward reinsurance commission income received by the Company.

b) Net premiums earned

Net premiums earned represent the premiums earned relating to risk exposure for the reported financial year. They comprise gross premiums written, net of reinsurance and expected lapses, adjusted for the change in the net provision for unearned premiums during the financial year.

The unearned premium provision represents the proportion of premiums written in the financial year that relate to periods of risk in future accounting years.

Premiums are shown gross of commissions payable and net of insurance premium taxes that may apply in certain jurisdictions.

In circumstances where a return of premiums is likely to be due to policyholders, a provision for the return of premium is established within the provision for unearned premiums. The return premium is treated as an adjustment to the initial premium, reducing gross premium income.

c) Outward reinsurance premiums

Outward reinsurance premiums represent the reinsurance premiums payable for contracts entered into that relate to risk mitigation for the reported financial year. These comprise written premiums ceded to reinsurers, adjusted for the reinsurers' share of the movement in the gross provision for unearned premiums.

In cases where the Company cedes reinsurance for the purpose of limiting its net loss potential, the arrangements do not relieve the Company of its direct obligations under insurance policies written.

Premiums, losses and other amounts relating to reinsurance treaties are recognised over the period from inception of a treaty to expiration of the related business. The actual profit and loss is therefore recognised not at inception but as such profit and loss emerges. Any initial reinsurance commission is recognised on the same basis as the acquisition costs incurred.

d) Net claims incurred

The gross technical provision for claims represents the estimated liability arising from claims episodes where the treatment or insured service occurred in current and preceding financial years which have not yet given rise to claims paid. The provision includes an allowance for claims management and handling expenses.

The gross technical provision for claims is estimated based on current information and the ultimate liability may vary as a result of subsequent information and events. Adjustments to the amount of claims provision for prior years are included in the technical account in the financial year in which the change is made.

Provision is made for unexpired risks when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and administrative expenses. The expected claims are calculated having regard only to contracts commencing prior to the balance sheet date. The methods used, and estimates made for claims provisions are reviewed regularly. Any identified deficiency is charged to the Profit and Loss account, initially by writing off deferred acquisition costs, and subsequently by establishing an unexpired risk provision for losses arising in excess of deferred acquisition costs.

e) Reinsurers' share of claims

Reinsurers' share of claims incurred represents recoveries from reinsurers on claims paid, adjusted for the reinsurers' share of the change in the gross technical provision for claims. The recoverable balances due from reinsurers are assessed for impairment at each balance sheet date. Impairments are accounted for within the technical account on an incurred loss basis.

f) Acquisition costs

Acquisition costs included within net operating expenses, represent commissions payable and other direct expenses related to the acquisition of insurance contract revenues written during the financial year. Acquisition costs that have been paid that relate to subsequent periods are deferred and recognised in the technical account across the period in which the benefit has been recognised, on a straight-line basis.

1.7 Current and deferred taxation

The taxation expense on the profit for the year comprises current and deferred taxation.

Current taxation comprises the expected tax payable or receivable on the taxable profit and loss for the period using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustments to the tax payable or receivable in respect of previous years.

Deferred taxation is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more taxation benefits, with the following exceptions:

- Provision is made for taxation on gains arising from the revaluation of property to its market value, the fair value adjustment of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the Balance Sheet date there is a binding agreement to dispose of the assets concerned and without it being possible to claim rollover relief. However, no provision is made where, on the basis of all available evidence at the Balance Sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred taxation assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

1.8 Related party transactions

As the Company is a wholly owned subsidiary undertaking of Bupa, a company registered in England and Wales, which publishes consolidated accounts, the Company has not included details of transactions with other Bupa Group companies which are subsidiary undertakings of Bupa.

FRS 101 also exempts entities from disclosure of compensation for key management personnel as required by IAS 24. There were no other related party transactions.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Bupa Group, the Company designates these as insurance arrangements, and accounts for them as such. In this respect, provision for expected claims is made on an incurred basis.

1.9 Investment income and expenses

Investment income comprises interest income, realised gains on investments, changes in the fair value of items recognised at fair value through profit or loss, changes in the fair value of derivatives and foreign exchange gains and losses. Interest income except in relation to assets classified as fair value through profit or loss, is recognised in the non-technical account as it accrues, using the effective interest method.

Investment expenses include interest payable on subordinated liabilities, realised losses on investments, changes in the fair value of items recognised at fair value through profit or loss, changes in the fair value of derivatives and other investment expenses.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Changes in the value of financial assets designated as at fair value through profit or loss are recognised within investment income or expense as an unrealised gain or loss while the asset is held, this represents the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

1.10 Financial Investments

The Company has classified its financial investments into the following categories: fair value through profit or loss and amortised cost. The Directors determine the classification of all financial investments at initial recognition. Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Company has transferred substantially all risks and rewards of ownership.

Measurement	Criteria and treatment
Fair value through profit or loss	Debt and equity instruments where performance is managed and evaluated on a fair value basis and the objective is to realise cash flows through the sale of the assets. The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the Profit and Loss account in the period in which they arise.
Amortised cost	Non-derivative debt instruments where the contractual characteristics of the financial assets represent solely payments of principal and interest and the objective is to hold the instrument to collect cash flows over its life. Any disposals are expected to be infrequent or insignificant. The investments are measured at amortised cost using the effective interest method, less any impairment losses. Any discount or premium on purchase is amortised over the life of the investment through the Profit and Loss account.

Impairment provisions on financial investments held at amortised costs are based on expected credit losses (“ECL”). This is calculated based on either 12-month or life-time ECL depending on whether there has been a significant increase in credit risk since initial recognition. As all the financial assets at amortised cost are either investment grade or short term, a 12-month ECL is applied. For financial investments, an option pricing probability model is used as the basis for assessing ECL. An analysis of ECL provisions is provided in note 22.3.

Financial investments carried at fair value are measured using different valuation inputs categorised into a three-level hierarchy. The different levels have been defined by reference to the lowest level input that is significant to the fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1.11 Derivative financial instruments

Derivative financial instruments consist of currency forward contracts and swaps. Derivatives are classified as fair value through profit and loss and recognised initially at fair value; attributable transaction costs are recognised in the profit and loss account when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit and loss account.

The fair value of currency forward contracts, swaps and options is determined using forward exchange rates derived from market sourced data at the balance sheet date, with the resulting value discounted back to present value.
All derivative contracts are subject to a credit support annex with variation margin receivable included within ‘other debtors’ and variation margin payable included within ‘other creditors’.

1.12 Debtors

Insurance debtors are carried at amortised cost less provision for impairment. Non-insurance debtors are carried at amortised cost less expected credit losses.

Provision for ECL for non-insurance debtors are measured at lifetime ECL. Where appropriate, a provision matrix is used to estimate ECL. Under a provision matrix, receivables are grouped into customer segments and further divided into categories by age. Historical credit loss experience and any relevant forward-looking information is then used to establish the ECL provision for each category. Based on this methodology, non-insurance debtors ECL provisions have been assessed as nil.

1.13 Subordinated liabilities

Subordinated liabilities are stated at amortised cost using the effective interest method. The coupon payable on the loan is recognised as an investment expense within net financial expense.

1.14 Creditors

Creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

1.15 Leases of property

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the company’s incremental borrowing rate taking into account the duration of the lease.

The lease liability is subsequently measured at amortised cost using the effective interest method, with the finance cost charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability. It is remeasured when there is a change in future lease payments arising from a change in index rate or if the Company changes its assessment of whether it will exercise an extension or termination option. The lease liability is recalculated using a revised discount rate if the lease term changes as a result of a modification or re-assessment of an extension or termination option. The leases currently held by the Company do not contain any extension or terminations options.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore properties to their original condition, less any lease incentives received. The right-of-use asset, excluding restoration costs, is typically depreciated on a straight-line basis over the lease terms. In addition, the right-of-use asset may be adjusted for certain remeasurements of the lease liability, such as indexation and market rent review uplifts. Restoration costs included in the right-of-use asset are amortised over the same term as the corresponding provision, which may be longer than the IFRS 16 contractual lease term.

The Company has elected not to recognise the right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less or leases that are of low value (£4,000). Lease payments associated with these leases are expensed on a straight-line basis over the lease term.

1.16 Accounting estimates and judgements

The preparation of financial statements to conform with FRS 101 requires the use of certain accounting estimates and assumptions that affect the reported assets, liabilities, income and expenses. It also requires the Directors to exercise judgement in applying the Company's accounting policies. The estimates and assumptions are based on historical experience and other related variables, updated to reflect current trading performance. The estimates and assumptions are reviewed on an ongoing basis and are considered to be appropriate but actual results may differ from these estimates.

Estimates by management in applying the Company's accounting policies that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in subsequent periods, are set out below and in more detail in the related notes.

- Outstanding claims provision: The key assumptions used in the calculation of the outstanding claims provision include claims development, margin of prudence, claims cost inflation and seasonality (Gross technical provisions, note 17).
- Return of premium provision: The key assumption in the calculation of the return of premium provision is the estimated cost of deferred claims expected to rebound (Gross technical provisions, note 17).
- Provision for unexpired risks: The key assumption used in the liability adequacy test is the projection of future expected claims cashflows including associated claims management expenses (Gross technical provisions, note 17).
- Investment property: The key assumption is the property yield (note 9).

2. Analysis of underwriting results

(i) Analysis by class

	Net Written Premiums £'000	**Premiums earned £'000**	**Claims incurred £'000**
2020			
Direct insurance: accident and health	**1,869,072**	**1,895,951**	**(1,131,440)**
Inward reinsurance	**289,033**	**286,167**	**(266,209)**
Outward reinsurance	**(107,342)**	**(102,003)**	**60,465**
Total	**2,050,763**	**2,080,115**	**(1,337,184)**

	Net Written Premiums £'000	Premiums earned £'000	Claims incurred £'000
2019			
Direct insurance: accident and health	2,045,627	2,063,927	(1,419,912)
Inward reinsurance	283,166	287,403	(270,059)
Outward reinsurance	(88,867)	(93,095)	67,080
Total	2,239,926	2,258,235	(1,622,891)

(ii) Segmental analysis of gross premiums written

	2020 £'000	2019 £'000
UK PMI	**1,457,820**	1,581,506
IPMI	**700,285**	747,287
Total	**2,158,105**	2,328,793

Geographic	**2020 £'000**	2019 £'000
United Kingdom	**1,995,315**	2,148,188
EU member states	**99,366**	123,987
Rest of the world	**63,424**	56,618
Total	**2,158,105**	2,328,793

Geographical analysis is based on where the business is written.

3. Net operating expenses

	2020 £'000	2019 £'000
Commission and other acquisition costs	**185,602**	183,880
Changes in deferred acquisition costs	**(2,355)**	(7,787)
Staff costs (see note 4)	**576**	1,150
Net loss/(gain) on foreign exchange transactions	**1,730**	(1,057)
Expenses payable to Bupa Group companies	**396,576**	347,937
Reinsurers share of expenses	**(8,037)**	(8,572)
Other operating expenses	**11,857**	16,078
Total	**585,949**	531,629

4. Staff costs and Directors' remuneration

The Company has two employees in the Switzerland office. All other staff are remunerated and employed through the Company's service company, Bupa Insurance Services Limited and recharged to the Company.

(i) Staff costs

The average number of employees during the year was as follows:

	2020	2019
Employees	**2**	10

	2020	2019
Administration	**2**	10
Sales	**-**	-
Total	**2**	10

	2020 £'000	2019 £'000
Wages and salaries	**534**	1,332
Social security costs	**-**	5
Pension costs	**42**	79
Total[1]	**576**	1,416

[1]Staff costs within 2020 include £nil of claims handling costs. (2019: £266k)

(ii) Directors' remuneration

The Directors split their time between the Company and Bupa Insurance Services Limited. Therefore, emoluments are disclosed in both companies.

	2020 £'000	2019 £'000
Emoluments	**1,294**	1,546
Company contributions to defined contribution pension schemes	**16**	31
Amounts receivable under long-term incentive schemes	**552**	742
Total	**1,862**	2,319

The emoluments of the Directors are borne entirely by other Bupa Group companies. The table above reflects the value of the qualifying services provided by the directors to the Company during the year.

There are no Directors who are members of a Bupa defined benefit pension scheme (2019: None).
The remuneration of the highest paid Director was:

	2020 £'000	2019 £'000
Emoluments	**480**	492
Company contributions to defined contribution pension schemes	**4**	8
Amounts receivable under long-term incentive schemes	**329**	319
Total	**813**	819

5. Investment income

	2020 £'000	2019 £'000
Income from Bupa Group undertakings:		
Interest receivable	**192**	256
Rental income on investment property	**3,634**	2,605
Income from investments held at amortised cost	**3,621**	8,119
Realised capital gains on investments	**-**	1,256
Interest receivable on overseas tax refund	**-**	252
Realised foreign exchange gains	**-**	5,025
Total	**7,447**	17,513

6. Investment expenses

	2020 £'000	2019 £'000
Interest payable to Bupa Group undertakings	**14,692**	21,392
Realised foreign exchange losses	**1,078**	-
Realised losses on other investments	**3,676**	-
Investment management expenses payable to Bupa Group undertakings	**1,058**	1,012
Other interest payable	**2,213**	3,418
Net impairment loss on financial assets	**251**	197
Total	**22,968**	26,019

7. Expenses and auditors' remuneration

	2020 £'000	2019 £'000
Fees payable to the Company's auditors for the audit services	**1,120**	1,056
Non-audit assurance services	**122**	94
Total	**1,242**	1,150

Fees payable to the Company's auditors represent the amount for the audit of the Company's annual accounts and are exclusive of VAT.

8. Taxation on profit on ordinary activities

Analysis of taxation charge in the financial year	**2020 £'000**	2019 £'000
Current Tax		
UK tax on income for the year	**31,173**	20,471
UK tax adjustments in respect of prior periods	**182**	571
	31,355	21,042
Double tax relief	**(2,656)**	(2,495)
Foreign tax on income for the year	**2,656**	2,419
Foreign tax adjustments in respect of prior years	**-**	(2,924)
	2,656	(505)
Total current tax	**31,355**	18,042
Deferred Tax		
Origination and reversal of temporary differences	**384**	438
Adjustments in respect of prior period	**90**	(180)
Changes in tax rates	**279**	(27)
Total deferred tax	**753**	231
Tax expense	**32,108**	18,273

The total taxation expense recognised in the profit and loss account of £32,108k (2019: £18,273k) represents a headline effective tax rate of 19.4% (2019: 16.6%) against a statutory UK prevailing tax rate of 19.0% (2019: 19.0%).

Reconciliation of effective tax rate

The differences between the total current taxation charge shown above and the amount calculated by applying the standard rate of UK corporation taxation to the profit before taxation is as follows:

	2020 £'000	2019 £'000
Profit before tax expense	**165,477**	110,104
UK Corporation tax rate	**19.0%**	19.0%
Tax at the UK corporation rate	**31,441**	20,920
Effects of the recurring tax reconciliation items:		
Deductions not allowable for tax purposes	**205**	7
Changes in tax rates	**279**	(27)
Transfer pricing adjustments	**(89)**	(93)
	395	(113)
Effects of non-recurring tax reconciliation items:		
Tax adjustments in respect of prior periods	**272**	(2,534)
Taxation expense at the effective rate of 19.4% (2019: 16.6%)	**32,108**	18,273

As at 31 December 2020, the Company had deductible temporary differences relating to unrelieved foreign tax of £2,601k (2019: £2,815k) for which no deferred taxation asset was recognised due to uncertainty over the utilisation of those temporary differences.

9. Investment property

	2020 £'000	2019 £'000
At beginning of year	**54,950**	54,700
Additions	**6**	70
Increase in fair value	**-**	180
At end of year	**54,956**	54,950

The investment property is measured at fair value, determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location and factoring in an appropriate yield. The net initial yield of 5.3% (2019: 5.3%) is used by the independent valuer and reflects the investment characteristics of the property including; building quality, location, tenant and lease term. A change in the yield of value (0.25%) would result in a change in fair value of plus £2.7m or minus £2.5m (2019: plus £2.7m or minus £2.5m).

The investment property held is classified as level three in the fair value hierarchy. In an active market, the portfolio is valued annually by an independent valuer, holding a recognised and relevant professional qualification, and with recent experience in the location and category of investment property being valued. The historical cost of investment property is £54.6m (2019: £54.6m).

The Company leases out the investment property to another Bupa Group company.

10. Land and buildings

Cost or valuation	2020 £'000
At 1 January 2020	16,398
At 31 December 2020	**16,398**

Depreciation	2020 £'000
At 1 January 2020	**(270)**
Charge for the year	**(274)**
At 31 December 2020	**(544)**

Net book value at 31 December 2020	**15,854**
Net book value at 1 January 2020	16,128
Net book value at 31 December 2019	16,128

The Company leases two car parks which have been recognised as right-of-use assets.

11. Financial investments

	2020		2019	
	Carrying Value £'000	**Fair Value £'000**	Carrying Value £'000	Fair Value £'000
Fair value through profit or loss:				
Corporate debt securities and secured loans	**310,848**	**310,848**	320,430	320,430
Government debt securities	**16,735**	**16,735**	26,337	26,337
Pooled investment funds	**37,978**	**37,978**	45,504	45,504
Amortised cost:				
Corporate debt securities and secured loans	**196,801**	**197,455**	216,973	217,500
Deposits with credit institutions	**381,349**	**382,381**	240,060	240,267
Total financial investments	**943,711**	**945,397**	849,304	850,038
Non-current	**361,234**	**361,234**	467,566	467,558
Current	**582,477**	**584,163**	381,738	382,480

Fair value of financial investments

The fair value of a financial instrument is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. The fair values of quoted investments in active markets are based on current bid prices. The fair values for all other financial investments are determined through discounted cash flow valuation techniques using observable inputs or are sourced from multiple third parties.

Financial instruments carried at fair value are measured using different valuation methods categorised into a fair value hierarchy. The different levels have been defined by reference to the lowest level input that is significant to the fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An analysis is as follows:

	Level 1 £'000	Level 2 £'000	Total £'000
2020			
Fair value through profit or loss:			
Corporate debt securities and secured loans	**-**	**310,848**	**310,848**
Government debt securities	**16,735**	**-**	**16,735**
Pooled investment funds	**37,978**	**-**	**37,978**
Amortised cost:			
Corporate debt securities and secured loans	**197,455**	**-**	**197,455**
Deposits with credit institutions	**-**	**382,381**	**382,381**
Total financial investments	**252,168**	**693,229**	**945,397**

	Level 1 £'000	Level 2 £'000	Total £'000
2019			
Fair value through profit or loss:			
Corporate debt securities and secured loans	-	320,430	320,430
Government debt securities	26,337	-	26,337
Pooled investment funds	45,504	-	45,504
Amortised cost:			
Corporate debt securities and secured loans	217,500	-	217,500
Deposits with credit institutions	-	240,267	240,267
Total financial investments	289,341	560,697	850,038

12. Other debtors

	2020 £'000	2019 £'000
Amounts owed by Bupa Group undertakings[1]	**8,889**	13,146
Corporation tax receivable	**15,620**	27,687
Derivatives assets	**32,703**	18,139
Other debtors	**4,874**	4,516
Total	**62,086**	63,488

[1]Included within amounts owned by Bupa Group undertakings is £3,291k (2019: £2,867k) relating to intergroup reinsurance debtors.

Other debtors are carried at amortised cost net of provisions for expected credit losses. Information regarding the ageing of other debtors is shown in Note 22. All other debtors are classified as receivables under IFRS 15, as a receivable is an entity's right to consideration that is unconditional i.e. only the passage of time is required before payment is due.

All derivatives are disclosed as level two in the fair value hierarchy. The Company holds foreign currency forward contracts to mitigate the Company's currency exposure. Please refer to Note 22.2 Foreign exchange risk for more details.

13. Cash at bank and in hand

	2020 £'000	2019 £'000
Cash at bank and in hand	**185,106**	165,316
Restricted access deposits	**290**	-
Total	**185,396**	165,316

The restricted access deposits of £290k (2019: £nil) relate to claims funds held on behalf of corporate customers. These amounts may be used only to discharge those obligations and potential liabilities if and when they crystallise.

Cash at bank and in hand includes £136,935k (2019: £124,993k) of cash equivalents.

14. Deferred acquisition costs

The movement in deferred acquisition costs is as follows:

	2020 **£'000**	2019 £'000
At the beginning of the year	**77,000**	68,930
Acquisition costs deferred	**158,376**	178,250
Acquisition costs released to profit and loss	**(156,040)**	(170,180)
At end of the year	**79,336**	77,000

15. Called up share capital

	2020 **£'000**	2019 £'000
Allotted, called up and fully paid		
187,208,702 ordinary shares of £1 each (2019: 57,208,702 ordinary shares of £1 each)	**187,209**	57,209

On 17 September 2020, 130,000,000 ordinary shares were issued for £130,000k.

16. Subordinated liabilities

	2020 **£'000**	2019 £'000
Subordinated loan	**-**	335,990

The Company had a £330,000k subordinated loan from Bupa Finance plc which was fully repaid on 17 September 2020. Following the repayment, the fair value of subordinated loans is £nil (2019: £344,633k).

17. Gross technical provisions

Analysis of movement in provision for unearned premium

2020	**Gross** **£'000**	**Reinsurance** **£'000**	**Net** **£'000**
At beginning of year	**1,004,618**	**(29,846)**	**974,772**
Return of premium provision	**145,157**	**-**	**145,157**
Written premiums in respect of future periods	**2,158,105**	**(107,342)**	**2,050,763**
Earned in the year	**(2,188,220)**	**107,434**	**(2,080,786)**
At end of year	**1,119,660**	**(29,754)**	**1,089,906**

Analysis of movement in provision for claims

2020	**Gross** **£'000**	**Reinsurance** **£'000**	**Net** **£'000**
At beginning of year	**218,030**	**(9,758)**	**208,272**
Increase for current year claims	**1,409,123**	**(60,068)**	**1,349,055**
Cash paid to settle claims	**(1,400,953)**	**60,918**	**(1,340,035)**
Decrease for prior year claims	**(11,475)**	**(396)**	**(11,871)**
Foreign exchange	**(1,568)**	**142**	**(1,426)**
At end of year	**213,157**	**(9,162)**	**203,995**

Analysis of movement in provision for unearned premium

2019	Gross £'000	Reinsurance £'000	Net £'000
At beginning of year	1,025,857	(33,057)	992,800
Written premiums in respect of future periods	2,328,793	(88,867)	2,239,926
Earned in the year	(2,350,032)	92,078	(2,257,954)
At end of year	1,004,618	(29,846)	974,772

Analysis of movement in provision for claims

2019	Gross £'000	Reinsurance £'000	Net £'000
At beginning of year	260,511	(10,111)	250,400
Increase for current year claims	1,720,151	(65,780)	1,654,371
Cash paid to settle claims	(1,728,806)	67,190	(1,661,616)
Decrease for prior year claims	(30,266)	(1,300)	(31,566)
Foreign exchange	(3,560)	243	(3,317)
At end of year	218,030	(9,758)	208,272

Assumptions for general insurance business

Unearned premiums

The unearned premium provision represents premiums written that relate to periods of risk in future accounting periods. It is calculated using time apportionment, which is not materially different from a calculation based on the pattern of incidence of risk.

In circumstances where a return of premiums is likely to be due to policyholders, a provision for the return of premium is established within the provision for unearned premiums. The return of premium is treated as an adjustment to the initial premium, reducing gross premium income.

A provision for return of premiums has been established due to the commitment to pass back any exceptional financial benefits experienced by the UK PMI business line that ultimately arise as a result of COVID-19 to UK PMI customers. At 31 December 2020, the return of premium provision is estimated to be £145.2m (2019: £nil) of which £126.8m relates to premiums earned in 2020 and has been charged to the profit and loss account in 2020. The return of premium provided for excludes associated IPT. The amount paid to customers will be inclusive of IPT which will then be recovered from HMRC by the Company.

The return of premium is calculated by estimating the ultimate net reduction in claims costs, due to the disruption caused by COVID-19, adjusted to take account of incremental costs and profit impacts attributable to COVID-19, of £202.2m and deducting the estimated costs of deferred claims expected to rebound of £57.0m.

The key assumption in determining the return of premium provision is the value of deferred claims expected to rebound. It is estimated that there will be up to 10% additional capacity in independent healthcare services to support this rebound of deferred claims. Claims are expected to increase during 2021 for a number of months before reducing to levels marginally above normal by the end of the year. The assumed level of deferred claims within the rebate is sensitive to additional capacity available in independent healthcare services and customer utilisation.

The following table shows the impact on the return of premium provision and profit before tax of reasonable variations in these assumptions:

2020	Return of Premium Provision £'000	Profit before tax £'000
Increase in estimated deferred claims rebound	(30,000)	26,190
Decrease in estimated deferred claims rebound	30,000	(26,190)

The sensitivity reflects a change of £30.0m in the deferred claims rebound estimate of £57.0m. It illustrates either a £30m increase in deferred claims rebound to £87.0m or a £30m decrease to £27.0m. The change could be as a result of a higher or lower average cost and, or, a larger or smaller number of deferred claims rebounding through 2021. For example, an increase to £87.0m could be caused by up to c.10% incremental healthcare services capacity being utilised for longer, whilst a decrease to £27.0m could be caused by lower capacity utilisation of up to c.5% for a shorter period of time.

In either scenario the return of premium would be directly impacted by the change in the estimated deferred claims rebound. Profit before tax in 2020 would be impacted by only a proportion of the change given that not all related premium was earned at 31 December 2020.

Claims are only provided for when a claims episode has occurred so delays to medical treatments that result in a reduction in claims in 2020 that are expected to rebound after 2020, and therefore not included in the return of premium, increase profit in 2020 with the expectation that there will be an equivalent reduction in profit when the claims rebound.

At the end of 2021 the ultimate return of premium to customers will be re-evaluated based on comparing the actual 2021 claims experienced against the expected 2021 claims inclusive of the estimate for deferred claims. This will also consider any expectation of deferred claims rebounding in 2022 if there is evidence of sustained additional capacity or utilisation continuing.

Provision for claims

The process of recognising liabilities arising from general insurance entails the estimation of future payments to settle incurred claims and associated claims handling expenses. The principal assumptions in the estimation of the liability relate to the expected frequency, severity and settlement patterns of insurance claims, which are expected to be consistent with recently observed experience and trends. The aim of claims reserving is to select assumptions and reserving methods that will produce the best estimate of the future cash outflows for the subject claims; it is an uncertain process which also requires judgements to be made. The resulting provisions for outstanding claims incorporate a margin for adverse deviation, over and above the best estimate liability, the quantum of which reflects the level of this uncertainty.

Estimation techniques are used in the calculation of the claims outstanding which are valued at a point estimate. The claims outstanding comprises the estimated costs of claims and claims handling expense for the two claims components as follows:

• Claims reported but not paid
• Claims incurred but not reported ("IBNR")

Claims reported but not paid are computed from direct data extraction from claims administration and accounting systems. For IBNR the method of computation is based upon the development of previously settled claims and the extrapolation of payments to date for each prior month.

Claims development patterns are analysed; where distinct sub-portfolios with different claims cost and development characteristics exist, further analysis is undertaken to derive assumptions for reserving that are appropriate and can be applied to relatively homogeneous groups of policies. Such sub-portfolios may be defined by product line, risk profile, geography or market sector. Various established reserving methods for general insurance are considered, typically basic chain ladder, Bornhuetter-Ferguson and pure risk cost methods. Additional consideration is given to the treatment of large claims, claim seasonality, claims inflation and currency effects, for which appropriate adjustments to assumptions and methods are made.

While there is some diversity in the development profile of health insurance claims across the Company, such claims are generally highly predictable in both frequency and average amount, and claims are settled quickly following the medical event for which the benefit is claimed. Medical expenses claims are typically, substantially fully-settled within just a few months. Claims management practices such as pre-authorisation of the claim with the insured, electronic claims settlement and effective network provider arrangements can reduce the development period to four to six months.

Insurance provisions are inevitably estimates. Actual experience of claims costs and/or administrative expenses may vary from that anticipated in the reserving estimates.

The following table shows the impact on profit before tax of reasonably possible variations in assumptions in the carrying value of insurance contract liabilities at the end of the reporting period:

	Increase in claims £'000	Increase in expenses £'000
2020		
Change in variable	**5%**	**10%**
Reduction in profit net of reinsurance before taxation	**9**,447	**1,013**
2019		
Change in variable	5%	10%
Reduction in profit net of reinsurance before taxation	9,732	929

Since premium provisions include profit margins, variances from expectations can be absorbed by these margins.

Liability adequacy testing

Liability adequacy tests are performed for all insurance portfolios. For short duration contracts, a premium deficiency is recognised if the sum of expected costs of future claims including claims that may have been delayed as a result of COVID-19 disruption and claim adjustment expenses, capitalised deferred acquisition costs, and maintenance expenses exceeds the corresponding unearned premiums, while considering anticipated investment income. Any identified deficiency is charged to the Profit and Loss account, initially by writing off deferred acquisition costs, and subsequently by establishing an unexpired risk provision within the unearned premium provision for losses arising in excess of deferred acquisition costs. At 31 December 2020 the liability adequacy tests showed no deficiencies. This conclusion is sensitive to the timing of the deferred claims rebound whereby a deficiency could arise if a significant proportion of deferred claims rebound occurred in the first half of 2021, however, this scenario is considered to be remote.

18. Provisions for other risks

	Regulatory £'000	Other £'000	Total £'000
At beginning of year	-	5,156	**5,156**
Charged to profit and loss account	5,002	323	**5,325**
Utilisation of the provision	(5,002)	-	**(5,002)**
Released in the year	-	(2,014)	**(2,014)**
Foreign exchange	-	19	**19**
At end of year	**-**	**3,484**	**3,484**

Regulatory provisions relate to levies payable to the PRA and the FCA. Such levies are generally determined on a capped percentage of revenues basis. Payments are normally made annually, although the frequency may be increased or decreased at the discretion of the regulatory body. The provision is a best estimate of the forthcoming payments considering the likely liability and expected business performance.

Other provisions relate principally to possible insurance premium tax (“IPT”) payments and legal, contract and customer remediation provisions.

The provision for possible IPT payments of £1,710k (2019: £1,859k) relates to countries where there is a potential IPT exposure but the regulations in the country do not oblige the Company to pay IPT, therefore uncertainty exists around the timing and amount of potential payments.

19. Deferred taxation

	2020 £'000	2019 £'000
At the beginning of the year - net deferred taxation liability	**2,199**	1,968
Charged to profit and loss account	**753**	231
Foreign exchange	**(7)**	-
At the end of the year – net deferred taxation liability	**2,945**	2,199

Net deferred taxation liability is analysed as follows:

	2020 £'000	2019 £'000
Accelerated capital allowances	**1,409**	780
Investment property	**1,536**	1,419
Total	**2,945**	2,199

20. Other creditors

	2020 £'000	2019 £'000
Insurance premium taxation payable	**46,808**	51,089
Amounts owed to Bupa Group undertakings[1]	**56,205**	65,124
Accruals and deferred income	**27,635**	23,830
Derivative liabilities	**25,497**	11,027
Trade creditors	**69**	640
Other creditors	**20,568**	21,536
Total	**176,782**	173,246

[1]Included within amounts owed to Bupa Group undertakings is £11,906k (2019: £12,585k) relating to intergroup reinsurance creditors.

All derivatives are disclosed as level two in the fair value hierarchy. The Company holds foreign currency forward contracts to mitigate the Company’s currency exposure. Please refer to Note 22.2 Foreign exchange risk for more details.

21. Lease liabilities

	2020 **£'000**	2019 £'000
At the beginning of the period	**15,709**	-
Adoption of IFRS16	**-**	15,732
Remeasurement	**-**	189
Repayments	**(673)**	(655)
Interest on lease liabilities	**441**	443
Total lease liabilities	**15,477**	15,709
Falling due within one year	240	673
Falling due after more than one year	15,237	15,036

22. Risk management

The Directors are responsible for identifying, evaluating and managing risks faced by the Company and consider the acceptable level of risk, the likelihood of these risks materialising, how to reduce the risk and the cost of operating particular controls relative to the benefit from managing the related risks.

The Company operates the 'three lines of defence' approach to the governance of risk management;

1. Business management is responsible for the identification and assessment of risks and controls;
2. Risk functions provide support and challenge the completeness and accuracy of risk assessments and the adequacy of mitigation plans; and
3. Internal audit provides independent and objective assurance on the robustness of the risk management framework, and the appropriateness and effectiveness of internal controls.

The principal significant risks of the Company and how they are mitigated are described on pages 8 to 11.

The Company has adopted a risk management strategy that endeavours to mitigate these risks, which is approved by the Board. In managing these exposures, the Company's Investment Committee reviews and monitors any significant investment and market risks.

The Company has exposure to a number of risks from its use of financial instruments and risks associated with its insurance business. These have been categorised into the following types of risk, and details of the nature, extent and how the Company has managed these risks is described below:

1. Insurance risk
2. Market risk
3. Credit risk
4. Liquidity risk

22.1 Insurance risk

Insurance risk consists of underwriting and pricing risks which relate to inadequate tariffs of insurance products as well as reserving risk which relates to the potential inadequacy of claims provision.

Underwriting risk

Underwriting risk refers to the potential deviation from the actuarial assumptions used for setting insurance premium rates which could lead to premium inadequacy. Underwriting risk is therefore concerned with both the setting of adequate premiums rates (pricing risk) and the management of claims (claims risk) for insurance policies.

Pricing risk

Pricing risk relates to the setting of adequate premium rates taking into consideration the volume and characteristics of the insurance policies issued, such as future claim projections. External influences on pricing risk include (but are not limited to) competitors' pricing and product design initiatives, and regulatory environments. The level of influence from these external factors can vary significantly between regions and largely depend on the maturity of health insurance markets and the role of the regulator. Actuarial analysis performed on a regular basis combined with an understanding of local market dynamics and the ability to change premium rates when necessary are effective risk mitigations.

The Company's dominant product is an annually renewable health insurance contract. This permits insurance premium rate revisions to respond quickly to changes in customer risk profiles, claims experience and market considerations.

The ability to review premium rates is a significant mitigant to pricing risk. The Company does not underwrite material insurance business that commits it to cover risks at premiums fixed beyond a 12-month period from inception or renewal.

Claims risk

Claims risk is the risk of claims exceeding the amounts assumed in the premium rates. This can be driven by an adverse fluctuation in the amount and incidence of claims incurred and external factors such as medical inflation greater than that included in the premium rates.

Claims risk is managed and controlled by means such as pre-authorisation of claims, outpatient benefit limits, the use of consultant networks and agreed networks of hospitals and charges. Specific claims management processes vary across the Company depending on local requirements, market environment and practice.

Adverse claims experience, for example, which is caused by external factors such as medical inflation, will affect cash flows after the date of the financial statements. Recent claims experience is reflected in these financial statements in claims paid and in the movement in the claims provisions.

Generally, the Company's health insurance contracts provide for the reimbursement of incurred medical expenses, typically in-hospital for treatment related to acute, rather than chronic, medical conditions. The contracts do not provide for capital sums or indemnified amounts. Therefore, claims experience is necessarily underpinned by prevailing rates of illness giving rise to hospitalisations. Claims risk is generally mitigated by the Company having processes to ensure that both the treatments and the consequent reimbursements are appropriate.

Reserving risk

Reserving risk is the risk that provisions made for claims incurred prove to be insufficient in light of later events and claims experience. There is a relatively low exposure to reserving risk compared to underwriting risk due to the very short-term nature of our claims development patterns. The short-term nature of the Company's insurance contracts means that movements in claims development assumptions are generally not significant. The development claims settlement patterns are kept under constant review to maintain the validity of the assumptions and, hence, the validity of the estimation of recognised insurance liabilities.

The amount of claims provision at any given time that relates to potential claims payments that have not been resolved within one year is not material. The small provisions that relates to longer than one year can be calculated with reasonable confidence.

During the year, claims volumes were reduced due to the restrictions on access to hospitals for elective surgery during the various lockdown. A portion of these claims are expected to rebound as independent healthcare services become available and overall this could result in the cost of claims increasing in the long run due to the deferred costs of treating undiagnosed or under-treated illnesses. A specific reserve is not held for deferred treatments as they have not yet occurred. A best estimate of the proportion of UK PMI claims that have been delayed and are likely to return in 2021 forms part of the return of premium provision calculation (note 17) related to the commitment to UK PMI customers. As with any estimate of this nature there is inherent uncertainty in the key judgements which may impact the return of premium.

Other risks relating to underwriting health insurance business

Claims provisions are not discounted and their short-term nature means that changes in interest rates have no impact on reserving risk. In addition, the future premium income and claims outflows of health insurance premium liabilities are largely unaffected by changes in interest rates. However, changes to inflationary factors such as wage inflation and medical cost inflation affect the value of future claims outflows.

None of the Company's insurance contracts contain embedded derivatives so there are no additional financial risks, including interest rate risk, arising from the contracts.

The Company is exposed to foreign currency risk through some of the insurance liabilities which are settled in a local currency. Where possible these liabilities are matched to assets in the relevant currency to provide an economic hedge to this exposure.

The majority of the Company's insurance activities are single line health portfolios. Even though only one line of business is involved, the Company does not have significant concentrations of insurance risk for the following reasons:

- product diversity between domestic and expatriate, and individual and corporate health insurance; and
- a variety of claims type exposures across diverse medical providers - consultants, nursing staff, clinics, individual hospitals and hospital groups.

Only in select circumstances does the Company use reinsurance. The reinsurance used does not give rise to a material counterparty default exposure for the Company. Restrictions are in place on the credit quality and amount of reinsurance ceded to individual counterparties.

Geographical concentrations of risk

The Company is exposed to the risk that a single event occurs in a location which would result in a large number of claims arising under a group risk policy. This is mitigated by diversifying the Company's portfolio of risk across several countries.

Catastrophe risk

A natural disaster or a man-made disaster could potentially lead to a large number of claims and thus higher than expected claims costs. In the majority of jurisdictions, the Company is not contractually liable for such claims. Risks are further reduced by excess of loss cover by Bupa and external providers. Bupa's Group Actuarial function oversees and implements strategic improvements to ensure overall adequacy of these arrangements. Consideration of pandemics forms part of our regular stress and scenario testing.

As a result of the COVID-19 pandemic, in the short term we experienced lower claims as elective surgery and other procedures were delayed due to independent healthcare services being engaged to support COVID-19 patients. The cost of claims in the long run could go up as the deferred cost of treating undiagnosed or under-treated illness after delays in elective treatment may be higher. We will take specific actions where we deem appropriate to support and maintain value for our customers, and we expect the impact on profitability of the actions taken to be broadly neutral. Actions taken to date include a pledge to UK PMI customers to pass back any exceptional financial benefit ultimately arising as a result of COVID-19 and, across the Company, financial distress measures have been introduced to support customers.

22.2 Market risk

Market risk is the risk of adverse financial impact due to changes in fair values of future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates, commodity prices, credit spread and equity prices. The focus of the Company's long-term financial strategy is to facilitate growth without undue balance sheet risk.

The Company actively manages market risk by ensuring that the majority of its cash and investments are held with highly rated credit institutions.

Where the Company has moved away from money market investments and invested in a limited portfolio of return seeking assets (principally bonds), the Company uses a value at risk analysis ("VaR") to quantify risk, taking account of asset volatility and correlation between asset classes. The VaR is measured at the 93.3rd percentile (i.e.1-in-15 year probability) over a 1 year horizon. The return seeking asset portfolio was £365,851k at 31 December 2020 (2019: £392,271k) and the 1-year VaR93.3 figure attributable to the portfolio is £25,800k at 31 December 2020 (2019: £28,400k).

In addition to local VaR analysis, the Company's overall cash and investment portfolio is managed by limiting the contribution of the combined investment risk charge to the Company's SCR.

Foreign exchange risk

The Company is exposed to transactional foreign exchange risks arising from commercial transactions and translational foreign exchange risk arising from the Company's net exposure to foreign currency assets, and liabilities.

Transactional exposures arise as a result of differences between the currency of local revenues (mainly GBP, USD and EUR) and costs (various currencies) with key exposures to the US dollar, United Arab Emirates dirham, Hong Kong dollar, Singapore dollar, Euro, Danish krone and Swiss franc.

The SII Economic Balance Sheet (EBS) is exposed to both foreign currency transactional and translational exposures. A program is in place to reduce the foreign exchange exposures and minimise the foreign exchange charge within the SII Solvency Capital Requirement (SCR). The program aims to hedge a significant proportion of the forecast foreign currency exposure through forward foreign exchange contracts for the coming year. The remaining currency exposures are deemed to be acceptable but are kept under review by management.

The carrying value of net assets categorised by currency is as follows:

2020	**Net currency exposure £'000**	**Currency contracts £'000**	**Net currency exposure including hedges £'000**
US dollar	**(37,104)**	**(182,218)**	**(219,322)**
United Arab dirham	**-**	**89,039**	**89,039**
Hong Kong dollar	**(219)**	**34,634**	**34,415**
Singapore dollar	**-**	**31,540**	**31,540**
Euro	**61,209**	**(68,127)**	**(6,918)**
Danish krone	**(972)**	**-**	**(972)**
Swiss franc	**(3,150)**	**-**	**(3,150)**
Australian dollars	**258**	**-**	**258**
Other	**108**	**6,820**	**6,928**
Total foreign currency denominated net assets	**20,130**	**(88,312)**	**(68,182)**

2019	Net currency exposure £'000	Currency contracts £'000	Net currency exposure including hedges £'000
US dollar	(13,620)	(229,000)	(242,620)
United Arab dirham	-	106,300	106,300
Hong Kong dollar	(455)	38,200	37,745
Singapore dollar	-	33,200	33,200
Euro	56,136	(62,900)	(6,764)
Danish krone	(3,523)	-	(3,523)
Swiss franc	(3,690)	-	(3,690)
Australian dollars	2,678	-	2,678
Other	-	7,100	7,100
Total foreign currency denominated net assets	37,526	(107,100)	(69,574)

The table presents the 'net currency exposure' of the Company's UK GAAP net assets which drive translational foreign exchange risk. The 'currency contracts' present the open foreign currency hedges, entered into as part of the SII EBS hedging program, which aim to mitigate forecast foreign currency transactional exposures. These derivative contracts are not designated hedges. 'Net currency exposures including hedges' presents the summation of the UK GAAP net currency exposure at year end and open SII EBS hedges. As the balances are unrelated, no offset is expected.

The rates used by the Company were the same as those applied across Bupa and the following exchange rates applied during the financial year:

	Average rate		**Closing rate**	
	2020	2019	**2020**	2019
US dollar	**1.2836**	1.2767	**1.3668**	1.3240
United Arab dirham	**4.7148**	4.6895	**5.0203**	4.8631
Hong Kong dollar	**9.9556**	10.0032	**10.5965**	10.3124
Singapore dollar	**1.7693**	1.7412	**1.8073**	1.7805
Euro	**1.1240**	1.1399	**1.1192**	1.1803
Danish krone	**8.3846**	8.5154	**8.3316**	8.8196
Swiss franc	**1.2040**	1.2686	**1.2105**	1.2809
Australian dollars	**1.8614**	1.8366	**1.7740**	1.8865

The impact of a hypothetical 10% strengthening and weakening of Sterling against the currencies below, with all other variables constant, would have increased / (decreased) profit before taxation and reserves by the amounts shown below:

2020	**Gain/(loss) included in Profit and Loss, strengthening 10% £'000**	**Gain/(loss) included in Profit and Loss, weakening 10% £'000**
US dollar	14,675	(17,935)
United Arab dirham	(8,094)	9,893
Hong Kong dollar	(3,129)	3,824
Singapore dollar	(2,867)	3,504
Euro	852	(1,041)
Danish krone	367	(449)
Other	(494)	603
Total sensitivity	**1,310**	**(1,601)**

2019	Gain/(loss) included in Profit and Loss, strengthening 10% £'000	Gain/(loss) included in Profit and Loss, weakening 10% £'000
US dollar	19,022	(23,249)
United Arab dirham	(9,664)	11,811
Hong Kong dollar	(3,431)	4,194
Singapore dollar	(3,018)	3,689
Euro	1,373	(1,678)
Danish krone	(35)	43
Other	(736)	899
Total sensitivity	3,511	(4,291)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk arising from fluctuations in market rates. This affects the return on floating rate assets, the cost of floating rate liabilities, the balance sheet value of its investment in fixed rate bonds and the balance sheet value of fixed rate debt issued. Floating rate assets represent a natural hedge for floating rate liabilities. The net balance on which the Company was exposed as at 31 December 2020 was £898,199k (2019: £926,998k).

During the year the Company's sole interest-bearing financial liability, a £330.0m subordinated bond, was repaid (see note 16). This was an undated, fixed interest liability with a call date of 16 September 2020.

The impact of a hypothetical rise of 100 bps in interest rates at the reporting date, on an annualised basis, would have decreased profit and reserves by £4,745k (2019: £6,806k). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

The impact of a hypothetical fall of 100 bps in interest rates on an annualised basis would have the inverse effect to that stated in the previous paragraph.

22.3 Credit risk

Credit risk is the risk that the Company will suffer a financial loss as a result of a counterparty failing to meet all or part of their contractual obligations. Bupa Group Treasury manages the Company's credit risk under the guidance of the Investment Committee.

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least 'A' by two of the three key rating agencies used by the Company (unless specifically approved by the Investment Committee).

The investment profile at 31 December is as follows:

	2020 £'000	2019 £'000
Investment grade counterparties	**937,137**	886,870
Non-investment grade counterparties	**191,970**	127,750
Total	**1,129,107**	1,014,620

Investment grade counterparties include cash at bank and in hand of £185,396k (2019: £165,316k). The investments which are held with non-investment grade counterparties are classed as debt securities and loans. Non-investment grade counterparties are those rated below BBB- / Baa3.

Information regarding the credit rating of financial assets held at amortised cost is provided below:

2020	**Corporate debt securities and secured loans £'000**	**Deposits with credit institutions £'000**	**Restricted Assets £'000**	**Cash and cash Equivalents £'000**	**Total £'000**
AAA	196,812	-	-	9,145	**205,957**
AA- to AA+	-	60,039	-	63,645	**123,684**
A- to A+	-	252,038	290	110,770	**363,098**
BBB- to BBB+	-	-	-	828	**828**
Below BBB- (below investment grade)	-	70,022	-	718	**70,740**
Total	**196,812**	**382,099**	**290**	**185,106**	**764,307**
ECL	**(11)**	**(750)**	**-**	**-**	**(761)**
Carrying amount	**196,801**	**381,349**	**290**	**185,106**	**763,546**

2019	Corporate debt securities and secured loans £'000	Deposits with credit institutions £'000	Restricted Assets £'000	Cash and cash Equivalents £'000	Total £'000
AAA	177,491	-	-	1,876	179,367
AA- to AA+	29,949	121,136	-	90,067	241,152
A- to A+	10,042	118,924	-	71,745	200,711
BBB- to BBB+	-	-	-	1,080	1,080
Below BBB- (below investment grade)	-	-	-	548	548
Total	217,482	240,060	-	165,316	622,858
ECL	(509)	-	-	-	(509)
Carrying amount	216,973	240,060	-	165,316	622,349

Information regarding the ageing of financial investments, assets arising from insurance operations, and the value of the impairment made against these assets, is provided below:

2020	**Not past due or impaired £'000**	**0-3 months £'000**	**3-6 months £'000**	**6 months to 1 year £'000**	**Greater than 1 year £'000**
Insurance debtors gross value	629,730	61,280	17,392	15,492	10,230
Provision for bad debt - insurance debtors - direct	-	(544)	(947)	(5,591)	(4,002)
Insurance debtors net value	**629,730**	**60,736**	**16,445**	**9,901**	**6,228**
Trade and other receivables	4,484	269	30	32	59
ECL provision	-	-	-	-	-
Trade and other receivables net value	**4,484**	**269**	**30**	**32**	**59**

2019	Not past due or impaired £'000	0-3 months £'000	3-6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000
Insurance debtors gross value	694,136	49,409	26,239	13,699	10,471
Provision for bad debt - insurance debtors - direct	-	(490)	(312)	(3,330)	(625)
Insurance debtors net value	694,136	48,919	25,927	10,369	9,846
Trade and other receivables	4,025	428	33	30	-
ECL provision	-	-	-	-	-
Trade and other receivables net value	4,025	428	33	30	-

Information regarding the Expected Credit Loss allowance by class of financial investments at amortised cost and fair value through profit or loss is shown below.

	Government debt securities	Corporate debt securities and secured loans	Corporate debt securities and secured loans	Pooled Investments Funds	Deposits with credit institutions	Deposits with credit institutions	Trade and other receivables	Other insurance debtors	Other insurance debtors	Restricted assets	Cash and cash equivalents
	Gross	**Gross**	**ECL**	**Gross**	**Gross**	**ECL**	**Gross**	**Gross**	**ECL**	**Gross**	**Gross**
2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At beginning of year	26,337	537,912	(509)	45,504	240,060	-	4,516	793,953	(4,756)	-	165,316
Recognition and settlement	(9602)	(30,216)	498	(7,526)	142,039	(750)	335	(55,285)	(6,804)	290	21,038
Write offs	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	(36)	-	-	-	-	23	(4,544)	476	-	(1,248)
At end of year	**16,735**	**507,660**	**(11)**	**37,978**	**382,099**	**(750)**	**4,874**	**734,124**	**(11,084)**	**290**	**185,106**

	Government debt securities	Corporate debt securities and secured loans	Corporate debt securities and secured loans	Pooled Investments Funds	Deposits with credit institutions	Deposits with credit institutions	Trade and other receivables	Other insurance debtors	Other insurance debtors	Restricted assets	Cash and cash equivalents
	Gross	Gross	ECL	Gross	Gross	ECL	Gross	Gross	ECL	Gross	Gross
2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of year	30,466	625,376	(129)	41,196	154,015	(90)	12,630	812,057	(3,718)	-	226,307
Recognition and settlement	(4,129)	(87,912)	(380)	4,308	86,045	90	(8,088)	(9,586)	(1,173)	-	(58,772)
Write offs	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	448	-	-	-	-	(26)	(8,518)	135	-	(2,219)
At end of year	26,337	537,912	(509)	45,504	240,060	-	4,516	793,953	(4,756)	-	165,316

In the table above, where asset class has no ECL provision due to being held at fair value, no ECL column is presented.

Offsetting Financial Assets and Financial Liabilities

a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangement and similar agreements.

	Gross amounts of recognised financial assets £'000	Gross amounts of recognised financial liabilities set off in the balance sheet £'000	Net amounts of financial assets/Liabilities presented in the balance sheet £'000	Related amounts not set off in the balance sheet: Financial instruments £'000	Related amounts not set off in the balance sheet: Cash collateral received £'000	Net Amount £'000
As at 31 December 2020						
Derivative financial assets	**32,703**	**-**	**32,703**	**(23,761)**	**(1,530)**	**7,412**
Derivative financial liabilities	**(25,497)**	**-**	**(25,497)**	**23,761**	**10,271**	**8,535**
Cash at bank and in hand	**222,938**	**(37,832)**	**185,106**	**-**	**-**	**185,106**
Other debtors	**29,383**	**-**	**29,383**	**-**	**(10,271)**	**19,112**
Other creditors	**(151,285)**	**-**	**(151,285)**	**-**	**1,530**	**(149,755)**
Total	**108,242**	**(37,832)**	**70,410**	**-**	**-**	**70,410**

	Gross amounts of recognised financial assets £'000	Gross amounts of recognised financial liabilities set off in the balance sheet £'000	Net amounts of financial assets/Liabilities presented in the balance sheet £'000	Related amounts not set off in the balance sheet: Financial instruments £'000	Related amounts not set off in the balance sheet: Cash collateral received £'000	Net Amount £'000
As at 31 December 2019						
Derivative financial assets	18,139	-	18,139	(7,643)	(980)	9,516
Derivative financial liabilities	(11,027)	-	(11,027)	7,643	9,700	6,316
Cash at bank and in hand	206,219	(40,903)	165,316	-	-	165,316
Other debtors	45,349	-	45,349	-	(9,700)	35,649
Other creditors	(162,219)	-	(162,219)	-	980	(161,239)
Total	96,461	(40,903)	55,558	-	-	55,558

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Bupa Group and the counterparty allows for net settlement of the relevant financial assets and liabilities with both electing to settle on a net basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

22.4 Liquidity risk

Liquidity risk is the risk that the Company will not have available funds to meet its liabilities when they fall due. The Company enjoys a strong liquidity position and adheres to strict liquidity management policies as set by its Investment Committee.

Liquidity is managed by currency and by considering the segregation of accounts required for regulatory purposes.

The contractual maturities of financial liabilities and the expected maturities of other liabilities including estimated interest payments of the Company as at 31 December are as follows:

	Subordinated liabilities £'000	Insurance contract liabilities £'000	Other liabilities under insurance contracts issued £'000	Trade and other creditors £'000	Lease Liabilities £'000	Derivative liabilities £'000	Total £'000
As at 31 December 2020							
2021	**-**	**1,332,817**	**98,339**	**151,285**	**673**	**25,497**	**1,608,611**
2022	**-**	**-**	**-**	**-**	**673**	**-**	**673**
2023	**-**	**-**	**-**	**-**	**673**	**-**	**673**
2024	**-**	**-**	**-**	**-**	**673**	**-**	**673**
2025	**-**	**-**	**-**	**-**	**673**	**-**	**673**
2026-2030	**-**	**-**	**-**	**-**	**3,365**	**-**	**3,365**
After 2030	**-**	**-**	**-**	**-**	**16,773**	**-**	**16,773**
Total	**-**	**1,332,817**	**98,339**	**151,285**	**23,503**	**25,497**	**1,631,441**
Carrying value	**-**	**1,332,817**	**98,339**	**151,285**	**15,477**	**25,497**	**1,623,415**

	Subordinated liabilities £'000	Insurance contract liabilities £'000	Other liabilities under insurance contracts issued £'000	Trade and other creditors £'000	Lease Liabilities £'000	Derivative liabilities £'000	Total £'000
As at 31 December 2019							
2020	350,625	1,222,648	88,454	162,219	673	11,027	1,835,646
2021	-	-	-	-	673	-	673
2022	-	-	-	-	673	-	673
2023	-	-	-	-	673	-	673
2024	-	-	-	-	673	-	673
2025-2029	-	-	-	-	3,365	-	3,365
After 2029	-	-	-	-	17,446	-	17,446
Total	350,625	1,222,648	88,454	162,219	24,176	11,027	1,859,149
Carrying value	335,990	1,222,648	88,454	162,219	15,709	11,027	1,836,047

The Company manages liquid cash and deposits with financial institutions against a short-term duration benchmark, and also maintains externally managed portfolios of longer-term debt securities. The maturity profile of financial assets at 31 December is as follows:

	Cash at bank and in hand £'000	Deposits with credit institutions £'000	Government debt securities £'000	Corporate debt securities and secured loans £'000	Pooled investment funds £'000	Total £'000
As at December 2020						
2021	**185,106**	**381,349**	**-**	**79,844**	**37,978**	**684,277**
2022	**-**	**-**	**267**	**99,160**	**-**	**99,427**
2023	**-**	**-**	**662**	**119,688**	**-**	**120,350**
2024	**-**	**-**	**945**	**55,427**	**-**	**56,372**
2025	**-**	**-**	**553**	**64,602**	**-**	**65,155**
2026-2030	**-**	**-**	**2,811**	**74,042**	**-**	**76,853**
After 2030	**-**	**-**	**11,497**	**14,886**	**-**	**26,383**
Total	**185,106**	**381,349**	**16,735**	**507,649**	**37,978**	**1,128,817**

	Cash at bank and in hand £'000	Deposits with credit institutions £'000	Government debt securities £'000	Corporate debt securities and secured loans[1] £'000	Pooled investment funds £'000	Total £'000
As at December 2019						
2020	165,316	240,060	687	89,315	45,504	540,882
2021	-	-	761	118,572	-	119,333
2022	-	-	1,320	113,525	-	114,845
2023	-	-	1,663	91,413	-	93,076
2024	-	-	2,894	22,042	-	24,936
2025-2029	-	-	7,272	75,996	-	83,268
After 2029	-	-	11,740	27,049	-	38,789
Total	165,316	240,060	26,337	537,912	45,504	1,015,129

[1] Corporate debt securities and secured loans have been restated to reflect the duration of their maturity periods.

23. Capital management

The Company's capital management objective is to maintain sufficient capital to safeguard the Company's ability to continue as a going concern and to protect the interests of all its customers, investors, regulator and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development.

The Company's capital position is kept under constant review and is reported monthly to the Board.

The Company is subject to the requirements of the SII Directive and must hold sufficient capital to cover its Solvency Capital Requirement ("SCR"). In addition, the Company maintains a buffer in excess of this capital requirement, calibrated in line with the capital risk appetite set by the Board. The SCR is calculated in accordance with the Standard Formula specified in the SII regulations. The Company has obtained approval from the Prudential Regulation Authority ("PRA") to substitute the premium risk parameter in the formula with an Undertaking Specific Parameter ("USP"), which reflects the Company's own loss experience.
At least annually, the Company carries out an Economic Capital Assessment ("ECA") in which it makes its own quantification of how much capital is required to support its risks. The ECA is used to assess how well the Standard Formula SCR reflects the Company's actual risk profile.

The ECA forms part of the Own Risk and Solvency Assessment ("ORSA") which comprises all the activities by which the Company establishes the level of capital required to meet its solvency needs over the planning period given the Company's strategy and risk appetite. The conclusions from these activities are summarised in the ORSA report which is reviewed by the Risk Committee, approved by the Board and submitted to the PRA at least annually.

The Company's Eligible Own Funds, determined in accordance with the SII valuation rules, were £512m[1] (2019: £452m) which was in excess of the estimated SCR of £240m[1] (£264m). This represented a Solvency coverage ratio of 213% (2019: 171%). This decrease is due to decrease in regulatory capital driven by dividends paid in excess of capital generated.

The Company uses a variety of metrics to monitor its capital position including UK Generally Accepted Accounting Practice capital and reserves, which are £478m as at 31 December 2020 (2019: £215m).

Other than disclosed above there have been no changes to what is managed as capital or the Company's capital management objectives, policies or procedures during the year.

[1]The Solvency Capital Position and related disclosures are estimated values and are unaudited at the time of approval of the financial statements

24. Contingent liabilities, guarantees and other financial commitments

(i) Contingent liabilities

Under a Bupa Group registration, the Company is jointly and severally liable for Value Added Tax ("VAT") due by certain other Bupa Group Companies.

The Company has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, disputes, regulatory compliance (including data protection) and interpretation of tax law. It is not considered that the ultimate outcome of any contingent liabilities will have a significant adverse impact on the financial condition of the Company.

(ii) Guarantees

The Company had issued no guarantees at the Balance Sheet date.

(iii) Financial commitments

The Company had no financial commitments at the Balance Sheet date.

25. Immediate and ultimate parent company

The immediate parent undertaking of the Company is Bupa Finance plc, a company incorporated in England and Wales, the registered office of which is, 1 Angel Court, London, EC2R 7HJ.

The ultimate parent undertaking of the Company, and the largest group into which these financial statements are consolidated, is The British United Provident Association Limited ("Bupa"), a company incorporated in England and Wales, the registered office of which is, 1 Angel Court, London, EC2R 7HJ. The consolidated financial statements of Bupa are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public. The smallest group into which these financial statements are consolidated is that headed by Bupa Finance plc.

Copies of the accounts of both companies can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ.

26. Events after the balance sheet date

(i) Transfer of Civil Services Healthcare Society Limited
On 1 January 2021, Bupa Group completed the transfer of Civil Services Healthcare Society Limited's health insurance members and its business. As part of this transaction, Bupa Insurance Limited completed a portfolio transfer from Civil Services Healthcare Society Ltd comprising insurance assets and liabilities, an office property and financial investments. There was no consideration paid for this transaction. The estimated fair value of assets and liabilities transferred is £14.0m which will result in an equivalent gain on transfer in the Profit and Loss account.

(ii) Claims disruption observed in 2021
In January and February the Company has observed higher levels of disruption to claims than could be foreseen at 31 December 2020. The reduction in claims experienced up to the approval date of these financial statements results in a small increase to the estimated value of the return of premium provision as at 31 December 2020 and is well within the range of sensitivity values presented in note 17.