



# Utmost Bermuda Limited - Financial Condition Report Year- End 2019

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Month: April 2020

*Amended December 2020*

Owner: Board of Directors

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## Introduction

This Utmost Bermuda Limited ("UBL" or "the Company") Financial Condition Report ("FCR") has been prepared in accordance with the Bermuda Insurance (Public Disclosure) Rules 2015. The FCR is required by law to provide both qualitative and quantitative information beyond that required by Generally Accepted Accounting Principles. The FCR addresses business performance, governance approach, capital management and solvency, among other matters.

The Company was incorporated as a long term Class C insurer under the Act on 21 December 1992 and was registered as a Segregated Accounts Company on 17 June 2002. The name of the Company was changed from Winplan Assurance Bermuda Limited to Altraplan Bermuda Limited on 20 September 2007, and subsequent to Utmost Bermuda Limited ("UB", "the Company") on 31 August 2018.

Augura Life Limited was merged with the Company on 1 January 2011.

From 20 September 2011, the Bermuda Monetary Authority ("BMA") has imposed a condition onto the Company's registration that no new contracts for insurance and reinsurance can be effected without their approval.

On 26 April 2016, the BMA provided to the Company a Direction issued under Section 66 of the Insurance Act 1978 ("the Act") allowing the Company to utilise a Balance Sheet Accounting for its Segregated Accounts business. The Direction was made subject to a number of conditions.

## A. Business and Performance

### A.1. LEGAL ENTITY NAME:

Utmost Bermuda Limited ("the Company")

### A.2. INSURANCE SUPERVISORS:

Bermuda Monetary Authority  
BMA House  
43 Victoria Street, Hamilton  
Bermuda

### A.3. APPROVED AUDITORS:

Statutory Reporting  
PriceWaterhouseCoopers,  
Chartered Professional Accountants  
Washington House 4th Floor,  
16 Church Street,  
Hamilton HM11,  
Bermuda

### A.4. OWNERSHIP STRUCTURE

The ownership of the Company changed on 30 November 2016, with 100% of the shares being purchased by Harcourt Life Assurance Designated Activity Company ("Harcourt Life Assurance"), which is part of the Life Company Consolidation Group<sup>1</sup> ("LCCG") Ireland Group, from PEL Bermuda Holding Limited, which was part of the OneLife Group (formally NPG Wealth Management).

The ownership of the Company changed again on 31 March 2018, with 100% of the shares being transferred to Harcourt Life Ireland Designated Activity Company ("Harcourt Life Ireland") from Harcourt Life Assurance.

On 31 October 2019, as part of Project Danube, 100% of the shares of the Company were transferred to Utmost PanEurope dac from Harcourt Life Ireland dac.

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<sup>1</sup> During 2019 LCCG was renamed as Utmost Group of Companies.  
Utmost Bermuda Financial Condition Report Year-End 2019

## **A.5. ORGANISATIONAL STRUCTURE**

The Company has no employees and utilises a number of outsourced service providers for its day to day administration and management services.

Utmost Services Ireland Limited<sup>2</sup> ("USIL") is an Utmost group service company which provides the following services to the Company and other life entities within Utmost Group Ireland:

- Finance;
- Actuarial;
- Fund Pricing Services;
- Property Management and Taxation Services;
- IT Services;
- Risk Management;
- Compliance; and
- Client Management Services.

A formal service agreement between the Company and USIL was signed in December 2019.

Utmost Administration Limited ("UAL") is an Utmost group service company responsible for the policy administration and investment services platforms. A formal service agreement between the Company and UAL was implemented during 2019.

Aon Insurance Managers (Bermuda) Limited act as Principal and Segregated Account representative. In October 2019 the Board of Directors approved Aon Insurance Managers (Bermuda) Limited as a critical outsourced service provider.

Conyers Corporate Services (Bermuda) Limited provide Company Secretarial services.

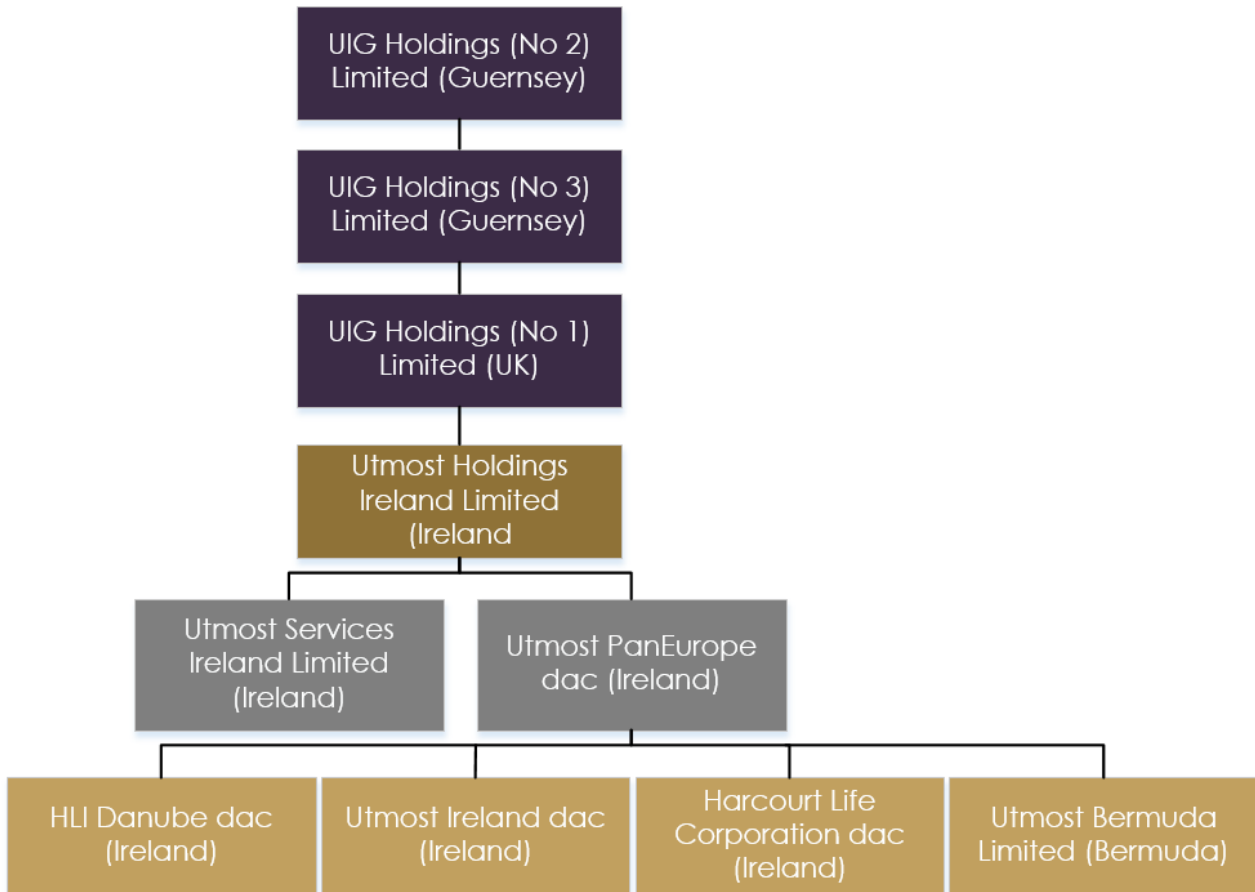
## **A.6. GROUP STRUCTURE**

The following provides details of the Company in the Group Structure as at 31 December 2019:

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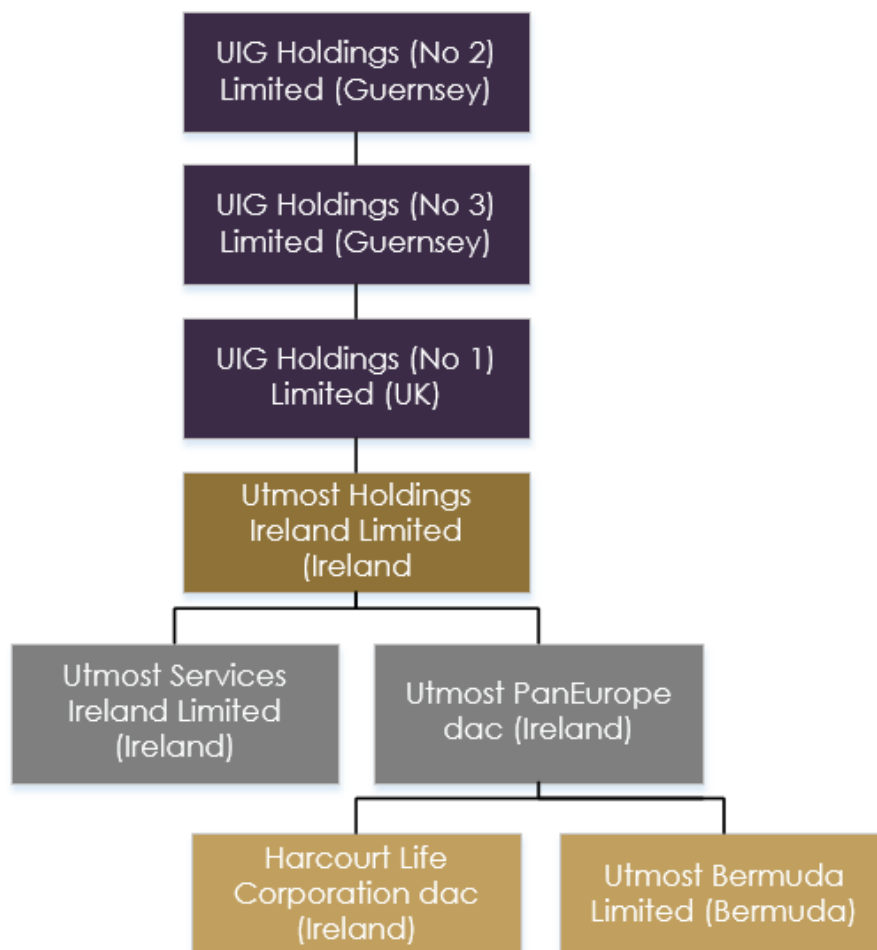
<sup>2</sup> Previously known as Harcourt Life Services Limited ("HLSL"), which was transferred into USIL during 2018. Utmost Bermuda Financial Condition Report Year-End 2019

**Exhibit 1** Group Ownership Structure at 31 December 2019



On 28 February 2020 the CBol confirmed that HLI Danube dac and Utmost Ireland dac had been deauthorised. Therefore, the group structure at 31 March 2020 is as follows:

**Exhibit 2** Group Ownership Structure at 31 March 2020



#### **A.7. INSURANCE BUSINESS WRITTEN BY BUSINESS SEGMENT AND BY GEOGRAPHICAL REGION**

The Company's principal activity is that of promoting and issuing investment orientation life assurance products known as long term insurance business as defined by the Act. The Company specialises in bespoke investment solutions for wealthy individuals in the form of unit linked life assurance policies and a small number of conventional life assurance policies.

The Company has been closed to new business since 2004 and dedicated policies account for the majority of the funds under management.

The company received \$67,499 of gross premiums during 2019 from existing conventional policies.

In overall terms, the Company generated a loss after tax for the 2019 financial year of \$1,186,872.

## A.8. INVESTMENT AND MATERIAL INCOME AND EXPENSE FOR THE REPORTING PERIOD

### Investments at 31 December 2019

The Company invests shareholders' funds in a combination of money market instruments such as cash, equities, short term debt securities and investment grade fixed income securities. A buffer is maintained to mitigate the risk of an adverse change in technical provisions.

The shareholder asset on regulatory return are invested as follows:

Shareholder Assets	31/12/2018 (US\$)	31/12/2019 (US\$)
Equities	66,452	3,330,845
Fixed Interest Bonds	2,581,919	2,383,156
Cash	4,971,094	2,383,231
<b>Total</b>	<b>7,619,465</b>	<b>8,097,231</b>

The cash investments are comprised of cash at bank and money market funds. Accrued income on investments amounted to \$66,052 (2018: \$72,917) at the end of the year.

### Material Income and Expenses for the Reporting Period

The Company's primary revenue resource is policyholder fees, rebates, custody fees and trail commission. The total income for 2019 \$478,198 (2018: \$610,876).

The main driver for the Company's expenses are the service charges levied by USIL and UAL for the administration and management of the policies. Total expenses for the year were \$551,304 (2018: \$395,675).

Fixed expenses represent 31.9% of total expenses.

## A.9. ANY OTHER MATERIAL INFORMATION

The identification and spread of the coronavirus is deemed to be a non-adjusting financial statement event. Therefore, its post year end impact has not been taken account of in the recognition and measurement of the company's assets or liabilities at 31 December 2019 and in particular in the measurement of assets and liabilities at fair value or in the measurement of the insurance technical provisions. The Company cannot predict potential future direct or indirect effects of the coronavirus and, therefore, it is not possible to quantify any potential material negative impact at this point in time.

Expenses are incurred in USD/Euro/GBP.



## B. Governance Structure

The Company relies on the governance structure which exists within the UGI Group. The governance structure for UGI ensures compliance with all aspects of the Solvency II Directive. It is noted that such requirements are greatly aligned to with the Bermudian Regulatory Authorities governance requirements.

Corporate governance represents the sum of the methods, models and planning, management and control systems that are required for the operation of the Company's governing bodies.

The Company's corporate governance is based on a number of cornerstones, such as the central role played by the Board of Directors ("Board"), the correct management of situations that present conflicts of interest, transparency in disclosing decisions regarding the management of the Company, and the effectiveness of the Internal Control and Risk Management Framework.

Risk governance is aimed at establishing an effective organisational structure based on a clear definition of risk roles and responsibilities, and on a set of policies, guidelines and operating procedures.

The Internal Control and Risk Management System is put in place within USIL through a specific on-going process which involves, with different roles and responsibilities, the Board, Senior Management and the organisational structures. The functions involved in the risk management process operate according to the Three Line of Defence approach:

- The operational structures (risk owners) are the first line of defence. The risk owners are ultimately responsible for risks concerning their area and to define and update the actions needed to make their risk management processes effective and efficient. They control the activity of the risk takers, who deal directly with the market and the internal and external parties and who define activities and programs from which risks may arise. The risk management initiatives defined by the risk owners address the way risk takers undertake risks. In addition, there are a number of support units (e.g. Actuarial) and oversight committees (risk observers) responsible for constantly monitoring specific risk categories, in order to measure and analyse them and to identify risk mitigation actions to the risk owners.
- The Risk Management, Legal & Compliance and elements of the Actuarial Function represent the Second Line of Defence. The Risk Management Function oversees the whole Risk Management System ensuring its effectiveness. It supports the Board and Senior Management in defining the Risk Strategy and in the development of the methodologies to identify, take, assess, monitor and report risks. It also supports the operating units implementing and adopting the relevant policies and guidelines. The Head of Outsourcing (reporting directly to the Chief Risk Officer) is responsible for the overall execution of the outsourcing lifecycle; from the risk assessment to the final management of the agreement and subsequent monitoring activities. The Legal & Compliance Function is in charge of evaluating whether the internal processes are adequate to mitigate compliance risk, the team are responsible for ensuring ongoing compliance with Bermudian legal and regulatory requirements.
- Internal Audit is the Third Line of Defence. Internal Audit is responsible for independently evaluating the effectiveness of the Internal Control and Risk Management System and for confirming the operational effectiveness of the controls.

The roles and responsibilities of each of the control functions (Risk Management, Legal & Compliance, Actuarial and Internal Audit) and how they interact with the organisation in the execution of that responsibility are set out in their respective charters. The role of the Head of Outsourcing is articulated in the Outsourcing Policy.

As outlined in the Risk Management Policy, the Risk Management Function acts as guarantor for the effective implementation of the risk management system, as required by law and as established by the Board.

The Risk Management Function supports the Board and Senior Management in the definition of the risk management strategy and the development of tools for risk identification, monitoring, management and reporting.

## **B.1. BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

### **Board and Senior Management Structure, Role, Responsibilities, and Segregation of Responsibilities**

All executive positions have responsibilities to the Board and Committees.

The Board have delegated the day to day running of the Company to the senior management team. The senior management team consist of experienced professionals, who undertake key roles within the Company and are able to approve specific issues within certain limits, above which matters must be escalated to the Board for determination. The Board consists of 4 Directors in place as at 31<sup>st</sup> December 2019. Please refer to Section B.2.

### **Remuneration Policy**

The Company (via USIL) provides a range of benefits to employees including salary, pensions, annual leave and bonuses based on performance. The Company has a Remuneration Policy (approved by the Board in March 2019) which applies on an on-going basis.

The policy is designed to ensure that the overall reward philosophy and remuneration governance framework of the Company:

- Complies with legislation, regulation, and best practice with regards governance and performance management.
- Supports the Company in its future and specific strategic objectives and evolving business focus through the wind-down.
- Assists the Company in its ability to attract, retain and reward strong performance.
- Promotes effective risk management.
- Enhances staff engagement and motivation.
- Promotes consistency of approach and transparency across the business.

### **Pension or Early Retirement Schemes for Members, Board and Senior Employees**

The Company (via USIL) provides employees with pension benefits through a defined contribution pension programme. The Company provides contributions to employees which is dependent on their seniority within the Company. The funds are invested in one of the Company's pension investment portfolios based on the employee's preference, which is administered by a third party advisor. The Company does not have any retirement schemes.

### **Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Management Material Transactions**

On 31 October 2019, as part of Project Danube, 100% of the shares of the Company were transferred to Utmost

PanEurope dac from Harcourt Life Ireland dac via a portfolio transfer scheme under Section 13 of the Assurance Companies Act 1909.

## B.2. FIT AND PROPER REQUIREMENTS

### Fit and Proper Process in Assessing Senior Management

The Company is committed to having processes in place to ensure that individuals employed within the Company or acting on behalf of the Company are both "fit" and "proper". In assessing "fit" and "proper" the Company applies the following principles:

- **Fitness:** As part of recruitment and employee screening, an individual's career history is assessed and validated to establish whether an individual's skills and knowledge is appropriate for the identified role.
- **Propriety:** Checks are in place to ensure that an individual is honest, of good reputation, has integrity and is financially sound.

The governance over the fitness and propriety of individuals cut across several areas of the employee lifecycle to ensure that the Company protects itself against employing individuals who potentially could threaten our people, customers, properties, facilities or reputation, the majority of fitness and propriety activities take place within recruitment and more specifically pre-employment screening.

### Board and Senior Management

Board of Directors as at 31<sup>st</sup> December 2019.

Name	Country of Residence	Date Appointed
Kent Smith	Bermuda	6 <sup>th</sup> December 2016
Henry O'Sullivan	Ireland	15 <sup>th</sup> November 2016
Sarah Johnston	Ireland	19 <sup>th</sup> February 2019
Marco Nuvoloni	Ireland	19 <sup>th</sup> February 2019

During 2019, the below persons resigned as Directors of the company:

Name	Resignation Date
Ian Maidens	19 <sup>th</sup> February 2019
Bellal Rahman	18 <sup>th</sup> November 2019

#### Kent Smith, Director

Kent was appointed to the Board of Utmost Bermuda on 6 December 2016.

Kent is Counsel to the Corporate Department in the Bermuda Office of Conyers Dill and Pearman, having joined in 2005. He has experience in all aspects of corporate law including insurance/reinsurance regulatory and transactional matters.

He was admitted to the Bar in Bermuda in 2005 as a Barrister and Attorney.

#### Henry O'Sullivan, Director

Henry was appointed to the Board of Utmost Bermuda on 30 November 2016.

Henry is an accountant with 19 years Financial Services experience within Banking and the Life Insurance industry. Henry has worked across various finance functions including Financial, Management and Statutory Reporting as well as FP and A and business partnering.

Henry is currently the Chief Financial Officer for the LCCG Ireland Group of undertakings.

#### Sarah Johnston, Director

Sarah was appointed to the Board of Utmost Bermuda in February 2019.

Sarah is a qualified Actuary with the SAI and has 18 years of experience, she worked in life assurance in Ireland for a number of years before joining the CBI. While at the CBI she held a number of senior positions in the Insurance Supervision department including cross border international life. She joined the Utmost Group in Ireland in an approved position of Head of Actuarial Function.

Sarah is currently the Head of Actuarial Function for Utmost PanEurope.

#### Marco Nuvoloni, Director

Marco was appointed to the Board of Utmost Bermuda in February 2019.

Marco is a qualified chartered accountant with over 20 years' financial experience in financial services including working at the Financial Services Authority and the Central Bank of Ireland. Marco has held senior compliance and risk roles across life and general insurance.

Marco is currently the Head of Legal and Compliance for the Utmost Group of Companies in Ireland.

#### **Other Roles within the Company**

- Marco Nuvoloni, Appointed Money Laundering Reporting Officer ("MRLO"). Mr. Nuvoloni was appointed as new FATCA Reporting Officer and MLRO on October 8<sup>th</sup> 2018.
- Aon Insurance Managers (Bermuda) Limited, Principal Representatives and Segregated Account Representative.
- PwC, Approved Auditor.

### **B.3. RISK MANAGEMENT AND SOLVENCY SELF-ASSESSMENT**

#### **B.3.1. RISK MANAGEMENT PROCESSES AND PROCEDURES TO IDENTIFY, MEASURE, MANAGE AND REPORT ON RISK EXPOSURES**

As outlined in the Company's Risk Management Policy, the Risk Management Function acts as guarantor for the effective implementation of the Risk Management System, as established by the Board. The Risk Management Function supports the Board and Senior Management in the definition of the Risk Management strategy and the

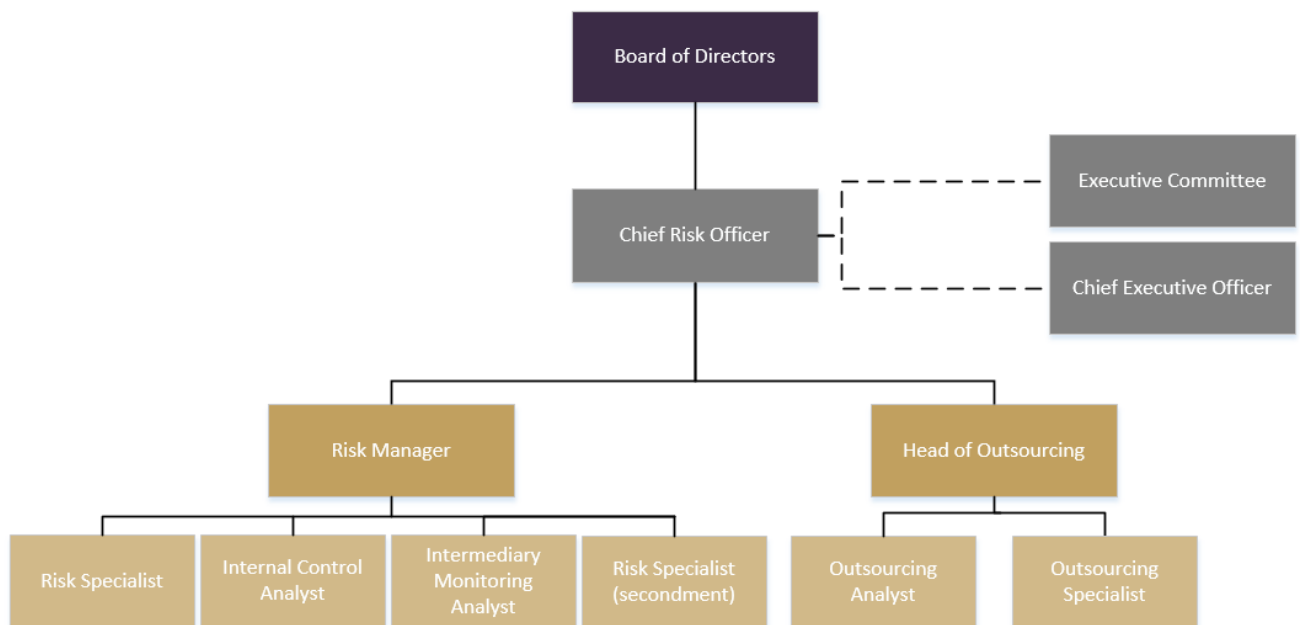
development of tools for risk identification, monitoring, management and reporting.

**Risk Management Function**

The Risk Management Function is separate from the operational business units and does not have operating responsibilities or a direct reporting line to those responsible for the operating activities. The independence of the Risk Management Function is guaranteed through its direct reporting line to the Board.

The Risk Management Function consists of the CRO supported by a Risk Manager, two Risk Specialists (one on secondment), an Internal Control Analyst and an Intermediary Monitoring Analyst. The CRO reports to the Board and has a dotted reporting line to the Chief Executive Officer ("CEO") on operational issues. The diagram below illustrates the Risk Management structure and reporting lines:

**Risk Management Structure and Reporting Lines**



The Risk Management Function oversees the sustainability of the risk management system. The Risk Management Function supports the Board, Senior Management and departmental managers in defining risk management strategies and the instruments to monitor and measure risks, providing, through an appropriate reporting system, the elements for an assessment of the performance of the risk management system as a whole. The Risk Management Function is responsible in particular for the following activities:

- Defining the risk measurement methodologies and models.
- Cooperating, with the Risk Owners, on the definition of the operating limits attributed to the operating structures and on the definition, with the first level functions (i.e. senior management) in charge of control, of the procedures for the prompt verification of such limits.
- Validating the information flows, prepared by the various Risk Owners, necessary to ensure the timely

- control of risk exposures and the prompt identification of any operational anomaly.
- Presenting appropriate reports to the Board Committee on the overall performance of the risk control and management system and its ability, in particular, to react to context and market changes, as well as on the development of risks and any instances in which the operating limits have been exceeded.
- Ensuring that the Executive Committee reacts to results from the stress tests if unexpected events or results are identified.

## Risk Management System

The purpose of the Risk Management System is to ensure that all risks to which the Company is exposed to are properly and effectively managed on the basis of the risk strategy defined, following a set of processes and procedures and based on clear governance provisions.

The principles defining the Risk Management System are provided in the Risk Management Policy, which is the cornerstone of all risk-related policies and guidelines. The Risk Management Policy outlines all risks the Company is exposed to, on a current or on forward-looking basis.

The Risk Management process is defined in the following phases:

### Risk Management Process



#### 1. Risk Identification

The purpose of the risk identification phase is to ensure that all material risks to which the Company is exposed are properly identified. For that purpose, the Risk Management Function interacts with the main Business Functions in order to identify the main risks, assess their importance and ensure that adequate measures are taken to mitigate them according to a sound governance process. Within this process, emerging risks are also taken into consideration.

#### 2. Risk Measurement

The Company has formally adopted a number of risk assessment methodologies.

#### 3. Risk Management and Control

The Company operates a sound Risk Management System in line with the established strategy and processes. To ensure that the risks are managed according to the risk strategy. This provides a framework for Risk Management embedding in day-to-day and extraordinary business operations, control mechanisms as well as escalation and reporting processes.

## **4. Risk Reporting**

Risk monitoring and reporting is a key Risk Management process which allows Business Functions, Senior Management and Board to be aware of, and informed about, the risk profile development, risk trends and any breaches of risk tolerances.

### **Risk Culture**

A core objective of the Risk Management Function is to embed a positive and open risk management culture within the Company.

### **B.3.2. RISK MANAGEMENT AND SOLVENCY SELF-ASSESSMENT SYSTEMS IMPLEMENTATION**

The Company's risk management framework is implemented and integrated into its operations through the systems, processes and procedures, and controls developed by management. The Risk Management Function report to the Board on a quarterly basis on the key risks faced by the company. Information on material operational risk events is also reported to the Board quarterly.

As a result of being closed to new business, the Company has received an exemption from BMA from complying with the full reporting requirements of Bermuda Solvency Capital Requirement (BSCR-LT), renewable on an annual basis.

The BMA has confirmed that as a result of the exemption, the Company is subject to a Minimum Solvency Margin (MSM) requirement of \$500,000.

### **B.3.3. RELATIONSHIP BETWEEN SOLVENCY SELF-ASSESSMENT, SOLVENCY NEEDS & CAPITAL AND RISK MANAGEMENT**

The Company continues to be operated as a closed book in run off and is subject to a Minimum Solvency Margin (MSM) requirement of \$500,000.

### **B.3.4. SOLVENCY SELF-ASSESSMENT PROCESS**

The Company continues to be operated as a closed book in run off and is subject to a Minimum Solvency Margin (MSM) requirement of \$500,000.

## **B.4. INTERNAL CONTROLS**

### **B.4.1. INTERNAL CONTROL SYSTEM**

Internal Control comprises a set of tools that helps the Company reach its targets in line with the level of risk selected by Senior Management and the Board. Such targets are not restricted solely to business targets, but extend also to those connected with financial reporting as well as compliance with all internal and external rules and regulations, and take on varying importance depending on the risk that has been identified. It follows that the relevant internal control mechanisms take on a varying nature and form too, depending on the particular process or processes under the examination.

It is the responsibility of the Board to encourage the development and spread of the 'culture of control', requiring senior management to make all staff aware of the importance of internal controls and the role that they play, as well as the added value that they represent to the business. Senior management is responsible for implementing both the 'culture of processes' and the 'culture of control' together with ensuring that employees are made aware of their individual roles and responsibilities regarding internal controls. The Company ensures that the system of delegated powers and procedures governing the allocation of duties, the operating processes and the reporting channels is duly formalised and employees are sufficiently informed and receive adequate training in relation to such systems.

#### **B.4.2. COMPLIANCE FUNCTION**

A Legal and Compliance Function operates across regulated entities within the Utmost Holdings Ireland Limited group which includes Utmost Bermuda Limited. The primary aim of *the function is to advise the businesses on compliance with relevant regulations and to facilitate the development of a compliance culture across the group.* In this context, one of the core responsibilities of the Legal and Compliance Function is to reinforce and promote ethical standards of behaviour and compliance awareness.

The Legal and Compliance Function seeks to achieve this objective through the delivery of training to relevant staff relating to key compliance risks including:

- Anti-Money Laundering and Counter Terrorism Financing;
- Data Protection;
- Code of Conduct;
- Conflict of Interest
- New laws and regulations (upstream risk);
- Managing claims and obligations arising from actual and potential/threatened legal claims and litigation.

Through the facilitation of dedicated training and working closely with the business, the Legal and Compliance Function promotes a positive compliance culture.

The Head of Legal and Compliance reports to the Board. The Legal and Compliance Function is operationally independent from Senior Management and has unfettered access to the Board.

The Compliance Function works with the business to facilitate compliance with the requirements that fall upon the business. The company is within the scope of the compliance monitoring program operating by the compliance and legal function.

The Compliance Function conducts monitoring of the first line of defence and reports the results to the Board. The scope of the monitoring completed includes the following:

- AML (Anti Money Laundering) and CTF (Counter Terrorism Financing): Conducting reviews of policyholder documentation for AML and CTF purposes. Performing AML/CTF risk assessments.
- Transaction Monitoring: Monitoring transactions for potentially suspicious activity.
- Regulatory and legislation monitoring: Monitoring and recording legislative requirements and conduct of business obligations that apply to the company.
- Online Training: Rolling out companywide training in areas such as Anti Money Laundering, Data Protection and supporting the Code of Conduct training.



The monitoring programme is reviewed on an annual basis.

The Head of Legal and Compliance is also a member of the Board.

## **B.5. INTERNAL AUDIT FUNCTION**

The Internal Audit Function ("IAF") is an independent, effective and objective function established by the Board to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the internal control system and all other elements of the system of governance, with a view of improving the efficacy and efficiency of the internal control system, of the organization and of the governance processes. This is set out in the Internal Audit Policy and Charter. The Internal Audit Policy and Charter has been approved by the Company's parent company Utmost Ireland dac and will be presented to the Board of Directors for approval at its April 2019 meeting.

The IAF supports the Board in identifying the strategies and guidelines on internal control and risk management, ensuring they are appropriate and valid over time and provides the Board with analysis, appraisals, recommendations and information concerning the activities reviewed. IAF also carries out assurance and advisory activities for the benefit of the Board, the Top Management and other departments.

IAF's authority is enshrined in the Internal Audit Charter which is reviewed annually. Per the Internal Audit Charter, the IAF has full, free, unrestricted and timely access to any and all the organisation's records, physical properties, and personnel pertinent to carry out any engagement, with strict accountability for confidentiality and safeguarding records and information.

The IAF governs via the Utmost Internal Audit methodology. This methodology is aligned with the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of auditing and for evaluating the effectiveness of the audit activity's performance. Given the delicate and important nature of the assurance role carried out within the business, all the personnel of the IAF must have specific fit and proper requirements as requested by the Company's Fit & Proper Policies.

The activity of IAF remains free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

On an annual basis, the Head of Internal Audit presents a proposed 12 month IA plan to the Utmost Bermuda Limited Board requesting approval. This plan is developed using a risk-based methodology, taking into account all past audit activities, expected company developments, innovations and input from Senior Management. The Head of Internal Audit reviews the Internal Audit plan on an ongoing basis and adjusts the plan in response to changes in the organisation's business, risks, operations, programs, systems, controls and findings.

Following the conclusion of each Internal Audit engagement, a written audit report is prepared and issued to the auditee and the auditee's hierarchy.

## B.6. ACTUARIAL FUNCTION

The Actuarial Function is accountable for actuarial methodology, reporting to the relevant governing Board on the adequacy of reserves and capital requirements, and on the adequacy of any underwriting and reinsurance arrangements.

The Actuarial Function has authority to review all areas of the Company and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work.

The Head of Actuarial Function ("HoAF"), who also acts as the Appointed Actuary, leads the Actuarial Function. All persons employed by the Actuarial Function in a defined actuarial role are subject to the Company's Fit and Proper requirements, to ensure they have the requisite skills and knowledge to complete the responsibilities outlined as part of their role.

## B.7. OUTSOURCING

The Company uses third party administrators to supplement its business operations. In order to mitigate the risks associated with outsourcing, Senior Management in conjunction with the Risk Management Function and Head of Outsourcing has implemented an Outsourcing Management Framework. This framework includes a process for both the selection of and the ongoing review and monitoring of outsourced service providers' performance.

A due diligence process, which addresses all material factors that could impact on the potential service provider's ability to perform the business activity, is undertaken prior to the appointment of all outsourcing.

Utmost Group Ireland has established an Outsourcing Policy to establish the requirements for identifying, justifying and implementing material outsourcing arrangements. The Outsourcing Policy sets out minimum mandatory outsourcing standards, assigns main outsourcing responsibilities and ensures that appropriate controls and governance structures are established within any outsourcing provision. This Outsourcing Policy will be adopted by Utmost Bermuda in H1 2019.

### List of Critical Outsource Providers

Name	Services Outsourced	Group / External	Jurisdiction
Utmost Services Ireland Limited (USIL)	Service company providing all core administration and management services to the Company.	Group	Ireland
Utmost Administration Limited (UAL)	UAL provides a range of services including Investment Administration, IT Infrastructure, Marketing and Propositions.	Group	Isle of Man
Aon Insurance Managers (Bermuda) Limited	Aon Insurance Managers (Bermuda) Limited act as Principal and Segregated Account representative providing services related to finance, governance, administration and compliance.	External	Bermuda

The terms of termination are detailed in the AON MSA section (Termination). In the event an exit is triggered, the Exit Plan objective will:

- Identify the business functions for each business line and determine the service impact in the event of

- termination of the outsource service provider.
- Outline the impacted services and perform a business impact analysis detailing the risk of the outsourced processes to the services with the goal of identifying the resources both human and financial required and time required to execute the exit plan.
  - Provide the framework within which the exit plan should be prepared considering regulatory and compliance and legal requirements.
  - Execute the lifecycle of exit plan in line with the timeframe of the exit ensuring the success criteria is met for each phase of the exit.
  - Minimise the impact of the exit to company, service provider and customers.

## **B.8. OTHER MATERIAL INFORMATION**

### **Business Continuity**

The Company has a Board Approved Business Continuity Policy and maintains comprehensive business continuity plans to ensure that critical business activities can be recovered in the event that a disruptive incident were to occur. This includes Department Specific Business Continuity Plans and an IT Disaster Recovery Run book which details the technical tasks required to recover IT critical business applications and services in the event that a disruption event was to impact core IT Systems.

Senior management have agreed a comprehensive testing schedule to ensure that the procedures are robust and in line with the business continuity objectives. Some improvements to the BCM System have been included in a cyber-resilience strengthening programme, which is underway currently.

There is also a business continuity Pandemic Plan in place which outlines the roles and responsibilities and steps to be taken in the event of a pandemic. In light of the recent outbreak of COVID-19 the business continuity Incident Management Team has met on a daily basis to ensure that plans are put in place to minimise the impact of the outbreak on UBL staff, policyholders and partners. The Incident Management Team have also provided regular communications to all staff with specific updates also provided to the Executive Committee.

### **Information Technology and Cyber Security**

The company is in the process of developing an Information Security Management System (ISMS) conforming to ISO27001, targeting certification in 2021. Following a 2019 assessment using the NIST Cyber Security Framework, a programme to strengthen cyber resilience controls is underway, aimed to ensure that relevant controls are robust, mature and repeatable and underpinned with an appropriate set of policies and procedures. An outsourcing arrangement of policy administration and application hosting is in place with Isle of Man based Utmost Administration Limited, and this entity is already certified against ISO27001.

Cyber Security occupies a key position in the risk profile of the organisation, and a breach of cybersecurity could potentially have a significant adverse impact, including possible reputational damage and significant costs arising in respect of incident response and business interruption.

To mitigate against these risks, a comprehensive suite of controls is in place designed at preserving the confidentiality, integrity and availability of the organisation's information assets such as encryption of data at rest, network firewalls, intrusion detection/prevention, endpoint protection, regular patching for known vulnerabilities, daily backups and staff training.

No other material information noted.

## C. Risk Profile

### C.1. MATERIAL RISKS THE INSURER IS EXPOSED TO DURING THE REPORTING PERIOD

The Company's main risk categories are insurance, market, credit, operating liquidity, and strategic risk.

- **Insurance Risk:** The risk of loss arising from inadequate pricing or adverse changes in the value of insurance liabilities due to inadequate provisioning assumptions. The company is exposed to mortality risk through its conventional and unit linked policies some of which pay a sum assured >100% on death. A small number of annuity policies remain on the book which gives risk to longevity risk. The Company mitigates this risk by incorporating a level of prudence within the mortality rates assumed in the calculation of technical provisions and through reinsuring some of the large mortality exposures.
- **Market Risk:** The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of financial instruments.
- **Credit Risk:** the risk of loss or of adverse change in the financial situation, resulting from the deterioration of the credit quality or default of an issuer of a financial instrument, a borrower, or a counterparty in a reinsurance or derivative contract. The company is exposed to credit risk through its investments in fixed interest bonds and its reinsurance arrangements with Swiss Re and Munich Re. The company mitigates this risk by choosing counterparties with a high credit rating and thus minimizing the risk of default/downgrade.
- **Operational Risk:** the risk of loss arising from inadequate or failed internal processes, personnel, or systems, or from external events. The Company faced operational risk due to its small size and scale which resulted in a potential lack of resilience. This risk has been mitigated since it became part of a larger group as it has access to a wider pool of resources, technical knowledge and experience. The Company will seek to minimise operational risk through its robust operational risk management process.
- **Liquidity Risk:** the risk of not being able to meet obligations when obligations come due to the lack of sufficient liquid assets or the inability to sell assets without incurring significant losses or the difficulty of raising capital when needed. The company holds a large proportion of shareholder assets in cash at bank / deposits to ensure it meets its policyholder and operational outgoings as they fall due.
- **Strategic Risk:** the risk of loss arising from the adverse effect of management decisions on both business strategies and their execution, as well as from unexpected changes in environmental trends that damage the operating economics of the business.

The Company uses a combination of proprietary and vendor models to evaluate and quantify these risks, whenever quantifiable.

### C.2. RISK MITIGATION IN THE ORGANISATION

The Company through a variety of ways, but ultimately risks are reported and monitored centrally by the Risk Management Function. The Risk Management Function also verifies that risks are either kept within agreed limits or temporary breaches for unique situations are appropriately escalated and either approved or corrected. Further, the Board, the Risk Management Function and Internal Audit review the risk management framework and ensure the controls are in place for managing the risk exposures and are operating as intended. If a new risk emerges, then the Company establishes new controls to manage the risk

### **C.3. MATERIAL RISK CONCENTRATIONS**

The Company applies Group policies governing risk concentrations in relation to counterparties, credit quality, sectors and geographic locations. The Company assets are invested in a mixture of USD MMF, Equities and Fixed Interest securities.

The Company has reinsurance contracts in place to reinsure benefits in excess of risk tolerances. Reinsurance agreements are in place.

### **C.4. INVESTMENT IN ASSETS IN ACCORDANCE WITH THE PRUDENT PERSON PRINCIPLES OF THE CODE OF CONDUCT**

The Company's investment portfolio is managed in accordance with the Company's Investment Parameter and aims to maintain the safety of principle, maintain sufficient liquidity to meet cash flow needs and to provide competitive investment returns for the Company.

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. The Company recognises that no investment is completely free from risk and that occasional measured losses are inevitable in a diversified portfolio and will be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Company.

### **C.5. STRESS TESTING AND SENSITIVITY ANALYSIS TO ASSESS MATERIAL RISK**

The Company assets are invested mainly in fixed interest securities and a USD liquidity fund, with sufficient capital in excess of requirements for year-end 2019. If a breach in capital requirements is identified it is noted that the Company has sufficient time to take appropriate management actions in advance of any such breach and thus would ensure that a potential regulatory capital issue would not occur.

As part of the year end process stress tests were carried out to quantify the impact of adverse movements on the Company's capital position as presented in the Run-off Plan. Tests performed relate to lapse, expenses, and income components.

#### **C.5.1. LAPSE STRESS**

The Company's surplus capital was tested for sensitivity to changes in the assumed lapse rates. This was achieved by increasing the year end assumptions by 10%. This reflects the potential loss of income the company might face due to policyholder concentration risk. A small number of policies make up a significant portion of funds under management. To ensure that the fall in income is not offset by a fall in variable expenses we have held these at the base run level.

Over the projection period of 15 years, the aggregate income reduces by approx. 7%. Notwithstanding this, the Company's projected capital remains in excess of the Capital Requirement.

### **C.5.2. EXPENSE STRESS**

The Company's surplus capital was tested for sensitivity in the assumed level of expenses. This was achieved by increasing the year end direct expense assumptions by 10%.

### **C.5.3. INCOME STRESS**

The Company's surplus capital was tested for sensitivity in the assumed income earned on its surplus assets. This was achieved by decreasing the assumed year end income rate to 0%. This led to a reduction of \$0.12m (3%) in the aggregate income over the projection period.

## D. Solvency Valuation

### D.1. VALUATION BASES, ASSUMPTIONS AND METHODS TO DERIVE THE VALUE OF EACH ASSET CLASS

The Company has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents – includes cash time deposits and investments maturing within three months. The fair value of these holdings is determined by using mark to market valuation, or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible, or mark to model valuation otherwise.
- Fixed Income Securities – are valued in accordance with mark to market principles where possible or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible. For fixed income securities that are not actively traded and for which similar assets are also not actively traded, the Company uses pricing services to prepare inputs to assist the Company with mark to model valuations.
- Equities and investment funds - includes common stock and preferred shares and are valued using the quoted market prices.
- Accounts Receivable and Premium Receivable – are recorded at a fair value and balances due in more than one year have been discounted at the relevant risk free rate.

### D.2. VALUATION BASES, ASSUMPTIONS AND METHODS TO DERIVE THE VALUE OF TECHNICAL PROVISIONS

The company calculates its technical provisions for statutory reporting on a prudent basis.

The Company holds a technical provision of \$2.71m in respect of its conventional policies. This was calculated by projecting forward premium income and outgoing claim expenses of each policy to determine the reserve required to meet any shortfall. The reserve was calculated with a policy-by-policy cash flow projection using a monthly time step with allowance for mortality.

In addition, the Company holds an expense reserve of \$3.2m in respect of the expected expense overrun. This was calculated by projecting the Company's annual income and expense stream for a 25-year time horizon, allowing for lapses in line with current experience.

### D.3. DESCRIPTION OF RECOVERABLE FROM REINSURANCE CONTRACTS

- The "Munich Re Swedish Portfolio" covers a portion of the unit linked policies with funds under management of c. \$194m. The death benefit on most of these policies is 1% of the unit funds and is fully reinsured.
- The "Swiss Re - ex. Augura Portfolio" covers a further portion of the unit linked policies, with funds under management of c.\$13m. The death benefit is on average 3% of the unit funds. The Company retains

the first \$25,000 of all claims, reinsuring the rest. A benefit reserve is held to cover the death benefits in excess of unit values for these policies.

- The "Swiss Re - Conventional Policies" covers the sum at risk on a small number of traditional whole of life policies.
- There are a small number of other policies where the Company is exposed to risk but there is no reinsurance arrangement in place. The benefits associated with these policies are reserved for within the conventional reserve.
  - There is a small number of other traditional policies where the Company is exposed to risk through a death benefit and there is no reinsurance arrangement in place.
  - There is also a number of UL policies for which there is a death benefit and which are not reinsured.
- There is no reinsurance in place on annuities.

The reinsurance arrangements protect the Company from large pay-outs on the small number of policies with significant sums at risk.

#### **D.4. VALUATION BASES, ASSUMPTIONS AND METHODS TO DERIVE THE VALUE OF OTHER LIABILITIES**

The Company's liabilities are valued on a GAAP basis. Settlements not expected to be settled within a year are discounted using the prescribed discount rates provided by the Bermuda Monetary Authority as at 31 December 2019. Loans and Notes Payable are valued on a GAAP basis and Derivative Instruments are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.

#### **D.5. ANY OTHER INFORMATION**

No other material information noted.



## E. Capital Management

### E.1. ELIGIBLE CAPITAL

All the capital within the Company is classified as Tier 1, consisting of capital stock, contributed surplus, and statutory surplus.

#### E.1.1. CAPITAL MANAGEMENT POLICY AND PROCESS FOR CAPITAL NEEDS, HOW CAPITAL IS MANAGED AND MATERIAL CHANGES DURING THE REPORTING PERIOD

The over-riding principle for capital management are unchanged from previous years and are summarised as:

"The primary capital management objectives of the Company are to maintain a strong capital base to support the run off in the book of business and to meet regulatory capital requirements at all times. The Company recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance. It strives for an appropriate capital structure that efficiently allocates the risk to the capital."

The purchase of Utmost Bermuda Limited has not changed the business outlook and the Company continues to be operated as a closed book in run off. The above principle remains appropriate for the business given the unchanged strategy.

The Company is in run-off and the key risks are well understood. It is not envisioned that any dividends will be paid or financing will be entered into, such that the existing capital will be retained within the Company.

For the purposes of this report we have assessed the level of statutory surplus available allowing for an adverse expenses stress, an adverse persistency stress and an adverse investment return stress. The details of these stress tests are set out in section C.

#### E.1.2. ELIGIBLE CAPITAL CATEGORISED BY TIERS IN ACCORDANCE TO THE ELIGIBLE CAPITAL RULES USED TO MEET ECR AND MSM REQUIREMENTS OF THE INSURANCE ACT

All the capital within the Company is classified as Tier 1, consisting of capital stock, contributed surplus, and statutory surplus.

#### E.1.3. CONFIRMATION OF ELIGIBLE CAPITAL THAT IS SUBJECT TO TRANSITIONAL ARRANGEMENTS

This section is not applicable to the Company.

#### E.1.4. IDENTIFICATION OF ANY FACTORS AFFECTING ENCUMBRANCES ON THE AVAILABILITY AND TRANSFERABILITY OF CAPITAL TO MEET THE ECR

This section is not applicable to the Company.

#### E.1.5. IDENTIFICATION OF ANCILLARY CAPITAL INSTRUMENTS APPROVED BY THE AUTHORITY

This section is not applicable to the Company.

## **E.1.6. IDENTIFICATION OF DIFFERENCES IN SHAREHOLDERS' EQUITY AS STATED IN THE FINANCIAL STATEMENTS VERSUS THE AVAILABLE CAPITAL AND SURPLUS**

This section is not applicable to the Company.

## **E.2. REGULATORY CAPITAL REQUIREMENTS**

The Company is able to satisfy the requirements of the capital management principle outlined in section E.1, as well as the base case and each of the stress tests apart from Year 15 for the Income and Expense stress test. However, given the long- term nature of these onerous scenarios, the Company would have sufficient time to take appropriate management actions well in advance thus ensuring that a potential regulatory capital issue would not occur.

### **E.2.1. ECR AND MSM REQUIREMENTS AT THE END OF THE REPORTING PERIOD**

The Company is exempt from the Minimum Margin of Solvency (MMS) requirement (i.e. 25% of Enhanced Capital Requirement (ECR)).

The BMA has confirmed that as a result of the exemption, the Company is subject to a Minimum Solvency Margin (MSM) requirement of \$500,000.

### **E.2.2. IDENTIFICATION OF ANY NON-COMPLIANCE WITH THE MSM AND ECR**

This section is not applicable to the Company.

### **E.2.3. A DESCRIPTION OF THE AMOUNT AND CIRCUMSTANCES SURROUNDING THE NON-COMPLIANCE, THE REMEDIAL MEASURES AND THEIR EFFECTIVENESS**

This section is not applicable to the Company.

### **E.2.4. WHERE THE NON-COMPLIANCE IS NOT RESOLVED, A DESCRIPTION OF THE AMOUNT OF THE NON-COMPLIANCE**

This section is not applicable to the Company.

## **E.3. APPROVED INTERNAL CAPITAL MODEL**

This section is not applicable to the Company.

### **E.3.1. DESCRIPTION OF THE PURPOSE AND SCOPE OF THE BUSINESS AND RISK AREAS WHERE THE INTERNAL MODEL IS USED**

This section is not applicable to the Company.

### **E.3.2. WHERE A PARTIAL INTERNAL MODEL IS USED, DESCRIPTION OF THE INTEGRATION WITH THE BSCR MODEL**

This section is not applicable to the Company.

### **E.3.3. DESCRIPTION OF METHODS USED IN THE INTERNAL MODEL TO CALCULATE THE ECR**

This section is not applicable to the Company.

### **E.3.4. DESCRIPTION OF AGGREGATION METHODOLOGIES AND DIVERSIFICATION EFFECTS**

This section is not applicable to the Company.

### **E.3.5. DESCRIPTION OF THE MAIN DIFFERENCES IN THE METHODS AND ASSUMPTIONS USED FOR THE RISK AREAS IN THE INTERNAL MODEL VERSUS THE BSCR MODEL**

This section is not applicable to the Company.

### **E.3.6. DESCRIPTION OF THE NATURE AND SUITABILITY OF THE DATA USED IN THE INTERNAL MODEL**

This section is not applicable to the Company.

### **E.3.7. ANY OTHER MATERIAL INFORMATION**

There is no other material information to disclose.

## **E.4. SUBSEQUENT EVENTS**

As outlined within the "Covid-19: Going Concern" paper presented to the Board of Directors on the 8<sup>th</sup> May, it is proposed that the 31 December 2019 Report & Accounts of Utmost PanEurope will treat COVID-19 as a non-adjusting post balance sheet event. The outbreak of COVID-19 has the potential to impact Utmost Bermuda both operationally and financially.

Based on assessing liquidity risk, mortality risk, counterparty default and insurance risk the Covid-19 exposure does not change the going-concern assessment of Utmost Bermuda. The company is resilient and well placed to weather the impact of Covid-19. It is acknowledged that there will be a requirement for active and on-going management. The company is well capitalised with significant solvency coverage and the shareholder assets are of a high quality. The company can continue to pay liabilities as they fall due and has a high level of quality liquid assets. As such Utmost Bermuda is treated as a going-concern in its assessment for signing off the 31 December 2019 Directors Report and Financial Statements.