

Somerset Bridge Insurance Services Limited

Strategic report

For the year ended 31 December 2019

Somerset Bridge Insurance Services Limited ("the Company") is a limited company incorporated in England and Wales on 6 August 2007. With its subsidiary Business Choice Direct Insurance Services Limited ("BCD") it forms the SBISL Group ("the Group").

The Company is a part of the UK registered insurance group, Somerset Bridge Group Limited ("SBG") together with sister companies Somerset Bridge Ltd ("SBL") providing underwriting capacity as a managing general agent (MGA) and Somerset Bridge Shared Services Ltd (SBSS) providing group wide support functions.

The Company, previously named Eldon Insurance Services Limited was renamed Somerset Bridge Insurance Services on the 6th December 2019 as part of a corporate reorganisation which aligned all of the companies in the SBG group under one corporate identity. Until December 2019, SBISL was 100% owned by ICS Risk Solutions Limited which in turn was owned by Somerset Bridge Group Limited (SBGL). During December 2019, SBISL was transferred from ICS Risk Solutions Ltd to SBGL at its fair market value. Therefore SBISL is a 100% owned subsidiary of SBGL at the 2019 balance sheet date and the date of signing these financial statements. This is described in more detail in the Business Review section below.

Section 172(1) Statement

Somerset Bridge Insurance Services Limited is a personal lines insurance broker which depends on the trust and confidence of its stakeholders to operate sustainably in the long term. The Company seeks to put its customers' best interests first, invests in its employees, works closely with its suppliers and partners, supports the communities in which it operates and strives to generate sustainable profits for shareholders.

The Directors of the Company have acted in accordance with their duties codified in law, which include their duty to act in the way in which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172(1) of the Companies Act 2006. Section 172 considerations are embedded in decision making at Board and Board Committee level and throughout the Company and Group. Issues, factors and stakeholders which the Directors have considered when discharging their duty under section 172(1) are detailed throughout this Strategic Report. Our mission, objectives and values are set out below. The Directors have engaged and have had regard to our stakeholders and the effect of doing so on principal decisions taken by the Company during the financial year. A summary of stakeholder matters is laid out within this Strategic Report.

Principal activity

The principal activity of the Company and Group is the provision of insurance services, including personal lines insurance broking. The Company brokers private motor, van, home and life insurance under the trading styles of GoSkippy, Vavista and with affinity partnerships with Debenhams and Holiday Extras. BCD, a 51% subsidiary, is a commercial broker operating under the brand Business Choice Direct. During 2019 and prior, the Company also provided claims handling services to the Company's panel of insurers. The claims division was transferred to sister company SBL in December 2019 which better aligned the services provided to the SBG group strategy with underwriting and claims handling together under the MGA company with the direct links to the insurance panel. This allows SBISL to focus on its regulated insurance broking business going into 2021 and beyond.

The Group's mission is to build a sustainable and innovative business that offers transparent insurance products and an efficient and fair service to policy holders. The Group places customers at the core of everything it does and is focused on continuous improvement; we are committed to developing products and services that best meet policyholder needs at affordable prices. The Group provides an exceptional customer experience by optimising technology and customer interaction, recognising the need to provide flexible and quick customer contact solutions in today's fast pace environment. This customer centric approach means that our customers can interact seamlessly with us, whether speaking to our telephone agents, using our self-service customer portal, through online agents, and mobile text.

Principal activity (continued)

The Group draws on its five core values in all aspects of its strategy and operations. The Group recognises the value of its people and culture in achieving SBISL's the mission and purpose. The core values are:

Innovative – Approaching work with a creative mindset and a passion to do things differently;

Collaborative – Developing an environment of harmony and equality where best practices and ideas are shared;

Knowledgeable – Demonstrating expertise and curiosity in an environment that nurtures employee development;

Fair and Transparent – Building an honest, open and respectful environment where a consistent approach is adopted;

Efficient – Striving for success through a culture of continuous improvement.

Business review

As a fast-growing insurance broker, the Group's priorities in 2019 were to build on the successes achieved since the launch of the brokerage division in 2013 and to focus on controlled, profitable growth, recognising market conditions. The Group continues to offer leading insurance products at competitively low premium prices, working with leading specialist insurer partners, including sister company Somerset Bridge Limited and its A-rated panel of insurers.

The Group's objective is to maintain controlled and profitable growth supported by actuarial-led pricing and customer selection techniques, using cutting edge technology with a strong focus on keeping our operating costs low, to support consistently attractive prices for our customers. This objective means that the Group will price according to risk and may need to reduce volumes or income in order to protect profits. In line with other major direct insurers in the market, the Company reported limited growth in broking income for 2019 with a 2% reduction due to private motor market conditions. This controlled approach is essential for the Group to achieve its objective of building a sustainable business for the long term.

Claims handling remained a key contributor during 2019 providing services to the wider insurance group. The claims function continued to develop and improve the efficiency of its processes, including on-going strategic improvements to its claims processing systems and is recognised as market leading in its field. In December 2019, as part of a corporate reorganisation of the SBG group of companies, the Company's claims handling operations were transferred to sister company, Somerset Bridge Limited. This reorganisation allows the Company to focus on its regulated activities as a pure insurance broker whilst bringing the claims handling operation together under Somerset Bridge Limited, the company responsible for underwriting partnerships. Going forwards, the Company results will be for brokerage activities only with Claims services part of Somerset Bridge Limited's results. Note that the 2019 results include those of the claims division for the year to 30th November 2019.

The Group achieved turnover of £86.5m (2018: £87.9m) and operating profit of £5m (2018: £6.5m), a 2% reduction in turnover demonstrating the Company's commitment to managing risk and long term profits rather than prioritizing income under unfavourable market conditions; claims income was consistent at £19m in 2018 and in 2019.

Business review (continued)

Our customer centric strategy encourages customer loyalty to the brands, which is clearly demonstrated by the growth in renewals volumes with 197,000 renewals policies sold during 2019 compared to 173,000 in 2018, an increase of 14% year on year on a like for like basis. In addition, new business policies across the brokers increased in the previous year to 296,000 (2018: 288,000) establishing the basis for renewal income in the future. Total policies in force at the end of 2019 stood at 396,000 (2018: 357,000) representing around 2% of the UK motor market.

The Company is committed to treating its customers fairly through such measures as providing excellent value for money to its customers and as a consequence continued to focus on costs during 2019. This ongoing process focuses on streamlining processes and reducing fixed costs as a means of eliminating wasteful practices and increasing efficiency across all parts of the business.

The Company distributes private motor policies under the Go Skippy and Vavista trading styles as well as under the affinity partnership with Debenhams and Holiday Extras. The diversity of trading styles enhances the Company's customer appeal and customer reach which in turn provides a diverse client portfolio to our panel of insurers.

The Company's product suite also includes home, bike, travel and life cover, which is part of the strategy to provide a full range of products to customers. The Company is continually looking to increase the product range, where it can identify areas of benefit to customers.

BCD, which provides commercial insurance services, mainly commercial and specialist motor insurance, achieved profit after taxation of £320,000 and paid dividends of £211,000 during the year. BCD saw organic growth of 1% in 2019, achieving turnover of £6m, policy sales of 27,000 and policies in force of 23,000. The Company sold its 51% shareholding in BCD in January 2020, demonstrating the success of the division since its launch in late 2013.

As at 31 December 2019, the Company's solvency capital requirement was calculated at £3.256m (2018: £3.134m), resulting in a capital surplus of £10.526m (2018: £6.938m).

Key performance indicators ("KPIs")

The Company and Group uses a variety of KPIs to measure the performance of its business units. These include daily and monthly financial and non-financial KPIs, measured against budgeted targets which are set annually. Examples of such KPIs are policy count versus budget, quote to sale conversion rate, renewal retention rate and income per policy, all of which vary across the brands. For the claims handling business, the key KPIs include monthly average cost per claim, which is a measure of the efficiency of its operations.

Financial risk management objectives and policies

The Group uses financial instruments such as cash, loans, debtors and creditors in order to finance the Group's operations. The existence of these instruments exposes the Group and the Company to financial risks detailed below.

Liquidity risk and cash flow risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet its foreseeable needs and to invest cash assets safely and profitably. The Group as a whole monitors cash flow using sophisticated forecasting techniques to ensure that all liabilities are met when due.

Interest risk

The Group monitors its banking facilities. Group monies are monitored to minimise interest charges on overdrafts and to ensure cash balances are used to offset overdrafts.

Credit risk

The principal credit risk for the Company and Group arises from its trade debtors. In order to manage credit risk the directors have incorporated a range of credit control procedures to monitor debt levels and to ensure that any debts are collected as soon as reasonably possible.

Future developments

The directors consider the Company and Group to be well positioned to continue on its mission to build a sustainable and innovative business that offers transparent insurance products and an efficient and fair service to policy holders.

Focused and targeted, controlled growth in the brokerage is intended to continue during 2020 as part of the strategy to build a strong renewals book and brand awareness, generating customer loyalty. As part of this focus on the customer, the Company continues to consider product enhancements. The Group continues to draw on its experience to continuously focus and improve the customer journey, a strategy that is establishing a loyal customer base.

The Group continues to closely monitor the impacts and uncertainties arising out of the Covid-19 pandemic. The Group remains focused on its mission and objectives, targeting profitable and sustainable controlled growth and the business remains robust despite the current challenges. The Company's focus since March 2020 has been on supporting the customers and protecting the staff, whilst maintaining efficient processes during a Disaster Recovery scenario. The Company recognises that the customers individual circumstances have changed so is offering greater flexibility to provide additional value during this period. In terms of our people, the Company quickly moved to home working where at all possible, including front line colleagues, guaranteeing colleagues their usual pay whilst working from home or on furlough.

Following the implementation of the Covid-19 restrictions, Motor trading has seen fewer new business customers in the market following a slow down in car transactions, although the Company has not been significantly impacted by this to date. Retention has remained strong. Overall, the Group does not anticipate a sustained negative financial impact on its ability to meet its objectives, although this continues to be monitored closely.

Stakeholder matters

The Company's strategy, endorsed by the Board, aims to deliver long term sustainability for all of our stakeholders. In taking decisions, the Directors carefully consider the balance of interests of the stakeholders who might be affected and any impact on the environment and the Company's reputation. Examples of stakeholder matters to which the Directors have had regard and, where relevant, the effect of their considerations on principal decisions taken by the Board and the Company during 2019 are set out below.

Customers: The Company puts customers at the centre of everything it does. The Board believes that the Company's long-term sustainability is driven by understanding customers' needs and acting in their best interests. The Board monitors customer engagement through ongoing monitoring of customer feedback through its social media platforms, review websites and by actively seeking customer scoring post sale. The Company also benchmarks its performance against industry best practise and standards as well as against regulatory benchmarks.

Stakeholder matters (continued)

Employees: The Board encourages a culture that seeks to empower our people and embraces diversity, inclusion and wellbeing. The Directors believe in encouraging employees to become fully informed of the Company's activities and to be more closely involved in the business and provide ongoing training as necessary. We encourage talented people to join us and help them realise their potential by giving them great opportunities to develop personally, professionally and technically. The Company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Company through presentations, consultations, forums and the use of the Company intranet.

Partners and Suppliers: The Company aims to maintain highest possible standards of integrity in business relationships and partnerships with suppliers. The Group relies on certain key strategic suppliers and a large number of other suppliers to conduct its business and performs ongoing due diligence into those suppliers, with developments and renewals of arrangements with those suppliers reviewed and approved at Board level where applicable.

Regulators: We have transparent communication with our key regulators which is facilitated through our compliance team. Our business teams and the non-executive directors of our regulated entities have ongoing engagement with our regulators on an ad hoc basis, including when requested to discuss specific matters. Any significant regulatory engagements are reported to the board.

Shareholders: The Company believes that engagement with its shareholders is critical to its success. This includes both its ultimate beneficial shareholder and immediate parent undertaking and sister companies within the Somerset Bridge Group. The board engages with shareholders and associated company Directors to communicate on strategy, performance and to receive feedback. Monthly Board reporting is provided to the parent company board of directors covering all key stakeholder matters which generates ongoing dialogue between the shareholders and the Company.

Community and environment: The Company is conscious of its role in society and the importance of supporting the local community as well as its responsibility to minimise the Group's environmental impact. The Company through its employee forum supports local and national charities and encourages and enables our people to contribute and engage with the communities in which the Company operates. The Group is conscious of the risks and opportunities of climate change including the impact of the business on the environment and potential risks to the business from climate change. Our Vavista insurance trading style has a strong focus on care for the planet and has partnered with Eden Reforestation Projects to plant a tree for every insurance policy sold. This initiative also supports local communities who are employed to plant and protect the trees planted.

Governance framework

The stakeholder matters described above are managed by the Board's robust governance structure, overseen by the Board. The Board's risk management system separates risk management into three lines of defence incorporating the responsibilities of the Board, the Risk Committee and the executive teams. The Board approves the high level system of governance, the risk appetite statements and group policies where appropriate. This core elements of this include the Matters Reserved to the Board and the Board Committees' Terms of reference. Group policies reflect minimum standards and requirements which are implemented throughout the Group.

This report was approved by the Board and signed on its behalf by:

M Holman
Chairman
Date:



19th AUGUST 2020