Somerset Bridge Group Limited ("the Company") is a limited company incorporated in the UK on 21 December 2018. The Company holds the subsidiaries ICS Risk Solutions Limited, Rock Services Limited, eDevelopment2 Limited, Somerset Bridge Limited (SBL), Somerset Bridge Shared Services Limited and Somerset Bridge Insurance Services Limited (SBISL) which holds the subsidiary Business Choice Direct Insurance Services Limited (BCD). Together, these companies form the Somerset Bridge Group Limited Group ("the Group").

Principal activity

The principal activity of the Group is the provision of insurance services, principally private motor and other personal lines through the Group's brokerage business, SBISL and Managing General Agent business, SBL, providing underwriting capacity to the Group on behalf of a panel of highly rated insurers and reinsurers. The Group also provides claims handling services to clients on behalf of its insurers.

The Group was established on 31 December 2018 as part of a corporate reorganisation which brought together the Group's operating subsidiaries previously under common ownership. The Group now provides a comprehensive suite of insurance services including a personal lines brokerage business, a managing general agent providing capacity to the brokerage and backed by A+ rated insurers, a claims handling operation and a shared service centre providing support services for the Group.

The principal activity for the Company is that of a holding company. In addition, the Company holds the rights to the Go Skippy brand for insurance products and generates a royalty income stream from its subsidiary, SBISL, charged at an arms-length fee per policy.

Section 172(1) Statement

Somerset Bridge Group Limited and its subsidiaries depend on the trust and confidence of its stakeholders to operate sustainably in the long term. The Group 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.

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.

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

The Group was established in December 2018 and acquired its trading subsidiaries as at 31st December 2018. The Group was established as part of a corporate reorganisation which brought together the Group's operating subsidiaries previously under common ultimate beneficial ownership. The Group now provides a comprehensive suite of insurance services including a personal lines brokerage business, a managing general agent providing capacity to the brokerage and backed by A+ rated insurers, a claims handling operation and a shared service centre providing support services for the Group.

During the year, the second phase of the reorganisation was completed which intended to remove legacy entities from the Group structure where those entities were no longer adding value or where their activities did not entirely align to the goals of the insurance group. This included the consolidation of activity to eliminate unnecessary or duplicated cost and clarification of roles and responsibilities within the remaining group companies to ensure adherence with the Senior Manager Certification Regime within the FCA regulated entities.

The Directors believe that the completion of the reorganisation has a positive impact on the sustainability of the Group and Company by simplifying structures and reducing cost, creating a lean and transparent insurance group, benefiting all key stakeholders. This clarity enhances the Group's ability to progress towards its mission and its alignment to its five core values as laid out above.

In order to achieve these goals, the Board initiated the cessation of trade and the transfer of assets of its subsidiary companies EDevelopment2, Rock Services Limited and ICS Risk Solutions Limited.

The Directors agreed to make EDevelopment2 dormant and it ceased trading as at 30th September 2019. At the same date, its trade and assets were transferred to Somerset Bridge Group Limited at their net realisable value. This transaction included cash of £50,000, the rights to use of the Go Skippy brand with a net book value £18,500,000 and related party debts of £17,492,000 a total net asset value of £1,057,000 with no gain or loss on transfer. This left residual cash balances received after the 30th September 2019 agreement and a balance due from the parent company to settle the transfer of assets agreement and a residual balance pre 30 September 2019 with SBGL, which has cleared in 2020. EDevelopment2 has now begun the strike off process.

A new shared service company, Somerset Bridge Shared Services Limited was established in the fourth quarter of 2019 and those services related to the insurance Group were transferred from Rock Services as at 31st December 2019. In preparation for Rock Services being made dormant, a detailed review was performed on the recoverability of debtor balances which resulted in write offs against irrecoverable balances amounting to £10m. Somerset Bridge Group Limited, made a shareholder contribution of £10m at 31st December 2019 which brought the net assets of Rock Services Limited to nil at the year-end; at the same date the net assets of Rock Services were transferred to the Group at their net realisable value (fixed assets of £0.6m, cash £0.4m, related party balances £4m, other debtors £3m and creditors of £8m i.e. a net liability value of nil with no gain or loss on transfer) and will allow for the strike off of Rock Services during 2020. At 31 December 2019 the assets of Rock Services Limited were £nil as they were transferred on that day to Somerset Bridge Shared Services Limited and the Statement of Financial Position of the latter was used in the consolidation.

Business review (continued)

Finally, the Directors agreed to make ICS Risk Solutions Limited dormant as at 31st December 2019. Its investment in subsidiary company, SBISL, was transferred internally to become a 100% subsidiary of SBG. This was transacted at its fair market value using discounted cash flows and with reference to an external valuation performed in December 2018. This created a profit on disposal within ICS of £34m for 2019 and leaves it dormant with net assets of £3m. At the same time, ICS Risk Solutions Limited transferred related party loans of £0.5m, a deferred tax asset of £4.4m, related party creditors of £41.1m and put option investments liabilities of £3.3m to its parent, SBG, with no gain or loss on transfer.

In December 2019, Somerset Bridge Insurance Services Ltd ("SBISL") was renamed and rebranded (previously named Eldon Insurance Services ltd) to align the company name with the wider group. At the same time, SBISL transferred its claims operations to Somerset Bridge Limited ("SBL"). This leaves the brokerage operation within SBISL and the MGA and Claims Businesses within SBL.

The Company purchased a 49% stake in its key partner, Outworx Pty during 2019 at its fair market value of £16.2m. This further consolidates the insurance activities within the group, since Outworx provides customer facing support to SBISL's customers from its customer service centre (see note 11).

The Group reports a consolidated loss before interest, tax, depreciation and amortisation (EBITDA) of £7.5m. The underlying operating loss is driven largely by operating profits in SBISL of £5m and losses of £14m in SBL, the MGA business, as a result of provisioning for deterioration in loss ratios by SBL that drive the variable commission income. As described in more detail below and in the future developments section, the losses in SBL are driven by prudent provisioning policies for movements in loss ratio and their impact on commissions income. The Directors expect to report a substantially improved position in 2020 as a result of the impact of releases on the 2019 underwriting year, an improved loss ratio for 2020 and the impact of increasing GWP against a relatively fixed cost base. Considering each of these aspects, the Board anticipates a significant improvement in Group EBITDA for 2020 in line with the Group's 5 year plan. Each of the operating areas are considered in more detail below.

Non-operating charges include amortisation of intangibles, a non-cash accounting item which reduces the Goodwill on incorporation of the new group over 10 years. This is not reflective of the underlying performance of the group and therefore the Board considers EBITDA to be the key performance indicator for the group. Non-operating charges also include an impairment of £10m related to the Group reorganisation in 2019. This is attributable to non-recurring losses related to aged debtor balance write offs as part of the final stages of the group reorganisation in preparing Rock Services for becoming dormant in 2020.

As a fast-growing insurance broker, SBISL'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. SBISL continues to offer leading insurance products at competitively low premium prices, working with leading specialist insurer partners, including sister company SBL 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, SBISL 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.

Business review (continued)

SBISL's 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 Group 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 Group's customer appeal and customer reach which in turn provides a diverse client portfolio to our panel of insurers. The 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 Group is continually looking to increase the product range, where it can identify areas of benefit to customers.

SBL's MGA business aligns with the Group objective on controlled and profitable growth. The MGA was launched mid 2017 and as such is still in early years of development of its underwriting performance. Despite the tough market conditions, the MGA reported GWP of £216m for 2019 (2018: £150m), demonstrating the pace at which the MGA has become established in the market. The MGA result includes a provision against deterioration in development of Loss Ratios based on an external actuarial review. This provision is based on prudent loss ratios initially and it is therefore anticipated that at least some part of the provisions recorded in the 2019 accounts will be released in 2020 and beyond as the underwriting years develop and the loss ratios become more certain; in particular the effect of Covid 19 on accident numbers is expected to have a substantial positive impact on the 2019 underwriting year loss ratio leading to significant releases on that year which will be reflected in the 2020 financial statements. This is described further in the Future Developments section.

The claims handling function of the Group is a key contributor to the business, and, the function continues 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.

The Group 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 inefficient practices and increasing efficiency across all parts of the business.

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. SBISL sold its 51% shareholding in BCD in January 2020, demonstrating the success of the division since its launch in late 2013.

Key performance indicators ("KPIs")

The 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. For the managing general agent business, the key performance indicators are loss ratio and combined ratio.

Financial risk management objectives and policies

The Group uses financial instruments such as cash, loans, debtors and creditors in order to raise finance for the Group's operations. The existence of these instruments exposes the Group to financial risks which are 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 and to ensure cash balances are used to offset overdrafts.

Credit risk

The principal credit risk for the 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 Group to be well positioned to build on the growth in turnover and profitability achieved by its subsidiaries.

Focused and targeted growth in the brokerages is intended to continue in the next 12 months as part of the strategy to build volumes and brand awareness, generating customer loyalty and renewal business. As part of this focus on the customer, the Group continues to consider product enhancements. This strategy will continue to be balanced with the underwriting performance targets of SBL.

From 1st July 2020 Somerset Bridge Limited has expanded its capacity to cover a number of external brokers, expanding its distribution channels from Group broking brands only (Go Skippy, Debenhams, Vavista) to a further 15 broking brands across the UK, as well as expanding the lines of business written to include short term car and van, courier car and van, and private hire car offerings. This contributes to the expected increase in capacity with projected GWP for 2020 at £250m compared to £216m in 2019 and £150m in 2018. Pricing changes have been implemented in 2020 which provide positive indications for the 2020 loss ratio projection and the associated sliding scale commission. Together with the relatively fixed operating cost base, the increase in capacity and improved loss ratios are expected to improve profitability in 2020 and beyond. Furthermore, the effect of Covid 19 on accident numbers has extended to both the 2019 and 2020 underwriting years and is expected to have a substantial positive impact on commissions income leading to a reduction in provisions for movements in sliding scale commissions in the 2020 financial statements. The anticipated claims reforms in 2021 are expected to benefit loss ratios further in 2021. Therefore, as the business grows and expands its capacity, it is fully anticipated that the MGA will begin to generate profits and move into a net assets position.

The claims handling function will remain focused on its continuous improvements programme, and intends to develop further business lines by exploring new relationships with external insurers seeking an exceptional claims handling provider.

The Group continues to draw on its experience within the broking and claims handling fields to continuously focus and improve the customer journey, a strategy that is establishing a loyal customer base.

Future developments (continued)

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 Group'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 Group 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 Group 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. This ensured that service levels remained in place to handle claims and meet claimant and policyholder needs throughout the UK lockdown.

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 registrations and other transactions, although the Group has not been significantly impacted by this to date. Retention has remained strong. Covid-19 restrictions have led to a reduction in claims notifications, with average severity expected to increase as average repair durations lengthen and credit hire costs increase. The Group will continue to track these trends closely but 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. It is anticipated that loss ratios for the underwriting year 2020 will improve as a result of the reduction in claims notifications during lockdown, which will in turn improve commissions earned from reinsurance partners on the 2020 and 2019 underwriting years.

Stakeholder matters

The Group’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 Group’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 Group during 2019 are set out below.

Customers: The Group puts customers at the centre of everything it does. The Board believes that the Group’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 Group also benchmarks its performance against industry best practise and standards as well as against regulatory benchmarks.

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 Group’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 Group 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 Group's 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.

Stakeholder matters (continued)

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 Group believes that engagement with its shareholders is critical to its success. 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 Company board of directors covering all key stakeholder matters which generates ongoing dialogue between the shareholders and the Company/Group.

Community and environment: The Group 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 Group 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:

A Marshall AMarshall
Director

Date: 07/10/2020