British Gas

SOLVENCY AND FINANCIAL CONDITION REPORT

BRITISH GAS INSURANCE LIMITED

Year Ended 31 December 2019

CONTENTS

SUMMARY

(Unaudited)

Coronavirus ("Covid-19") Update

Subsequent to the date of reporting of 31 December 2019, there has been a global pandemic ("Covid-19"). This has resulted in the Coronavirus Act 2020 which places wide-ranging restrictions on freedom of movement in the UK.

We are focussed on looking after the health and safety of our employees and our customers. We are following relevant advice from the government and health organisations and we have stopped non-essential customer visits to minimise contact, until such advice concludes otherwise. Service engineers continue to attend emergencies such as no heating or hot water.

Covid-19 has caused widespread disruption to businesses and economic activity. This has caused fluctuations in the UK and global financial markets, but our investment policy means our funds have been largely unaffected by these movements.

The information presented in this report is as at 31 December 2019. Our financial and liquidity positions are regularly monitored and remain strong.

Further information is included in Section F.

BUSINESS

British Gas Insurance Limited underwrites general insurance risks in the UK, within the assistance[1] class of business. The HomeCare range covers the breakdown of domestic boilers and central heating systems, as well as options to cover plumbing & drains and home electrics. We also offer appliance cover.

We are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

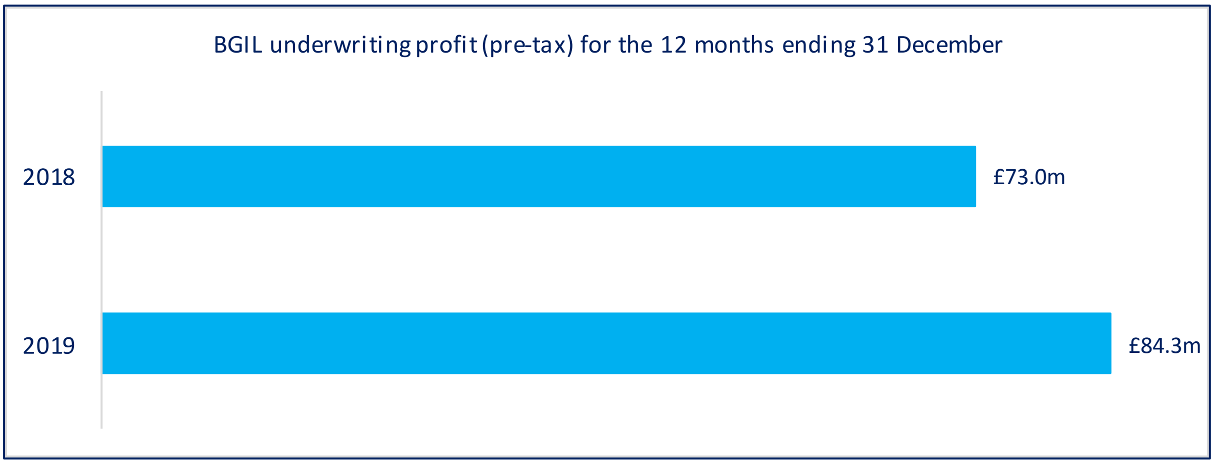
British Gas Insurance Limited is part of the Centrica group. It outsources some services including sales, and claims handling & fulfilment to its sister company, British Gas Services Limited, an insurance intermediary directly authorised and regulated by the Financial Conduct Authority.

UNDERWRITING PERFORMANCE

BGIL's underwriting profit has increased reflecting warmer weather experience in the year resulting in lower boiler and central heating claims. There has also been changes to the premium that BGSL pays BGIL and changes to claims recognition which have contributed to higher profitability over the year.

Section A has more information on our business and performance.

[1] Customers can also arrange home insurance through British Gas but we do not underwrite it and so this report does not cover home insurance.



SYSTEM OF GOVERNANCE

Governance is provided through the Board, and through its delegated authority, its sub-committees and Executive committees.

We have a robust risk management system in place to identify, measure, monitor, manage and report on the risks to our business strategy and delivery of our objectives. We operate a 'three lines of defence' governance model to ensure appropriate segregation of risk ownership, oversight and assurance responsibilities.

- First line: ownership of risk taking and risk management in respect of business as usual activities, change programmes and strategy.
- Second line: protecting and enabling the business to achieve its objectives by providing advice and oversight of risk taking and risk management, while developing and delivering the relevant tools and methodologies to support business risk taking.
- Third line: independent and objective assurance of the effectiveness of risk management and internal controls through Internal Audit.

Section B has more information on our system of governance.

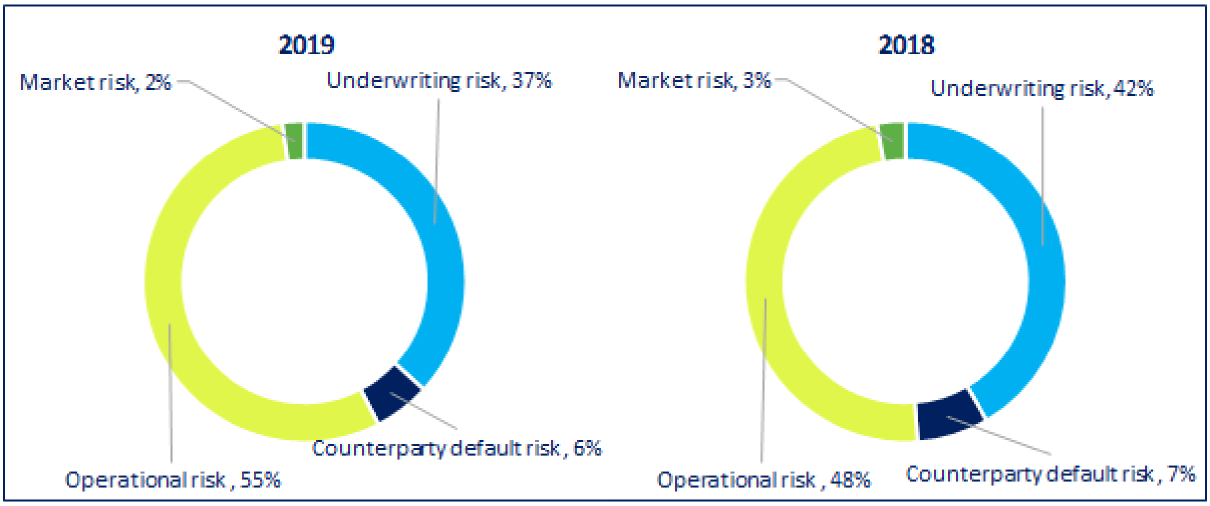
RISK PROFILE

Our risk profile is similar to last year. Underwriting risk and operational risk remain key risks. Cold weather risk is our biggest underwriting risk and how British Gas Services Limited deal with customers drives our operational risk.

Compared to many other insurers, our operational risks represent a bigger proportion of our total risk profile. This is a feature of our comparatively low underwriting risk due to the quick settlement of claims at a fixed unit cost per claim.

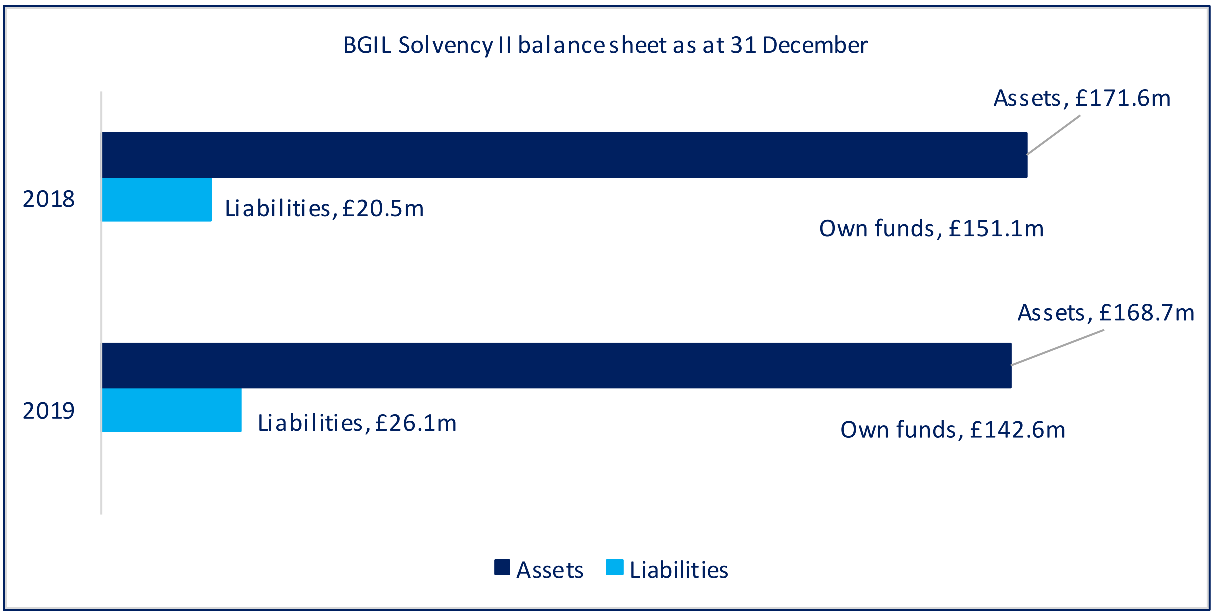
The impact of Brexit is expected to be very limited as we do not export products and services to EU countries, nor do we have a material exposure to currency or interest rate risks. Macroeconomic impacts on existing trade receivable recoverability are expected to be immaterial. We continue to carefully monitor Brexit developments. Further information is in Section C.

The risks of the Covid-19 pandemic are being monitored and the business remains focussed on ensuring continuity of service while supporting customers and employees. Further information is in Section F.



VALUATION FOR SOLVENCY PURPOSES

Our own funds (excess of assets over liabilities) have decreased. The increase in profit in 2019 means that British Gas Insurance Limited owes British Gas Services Limited more profit commission at the year-end and this increases our liabilities at that date. Assets values are similar to last year.

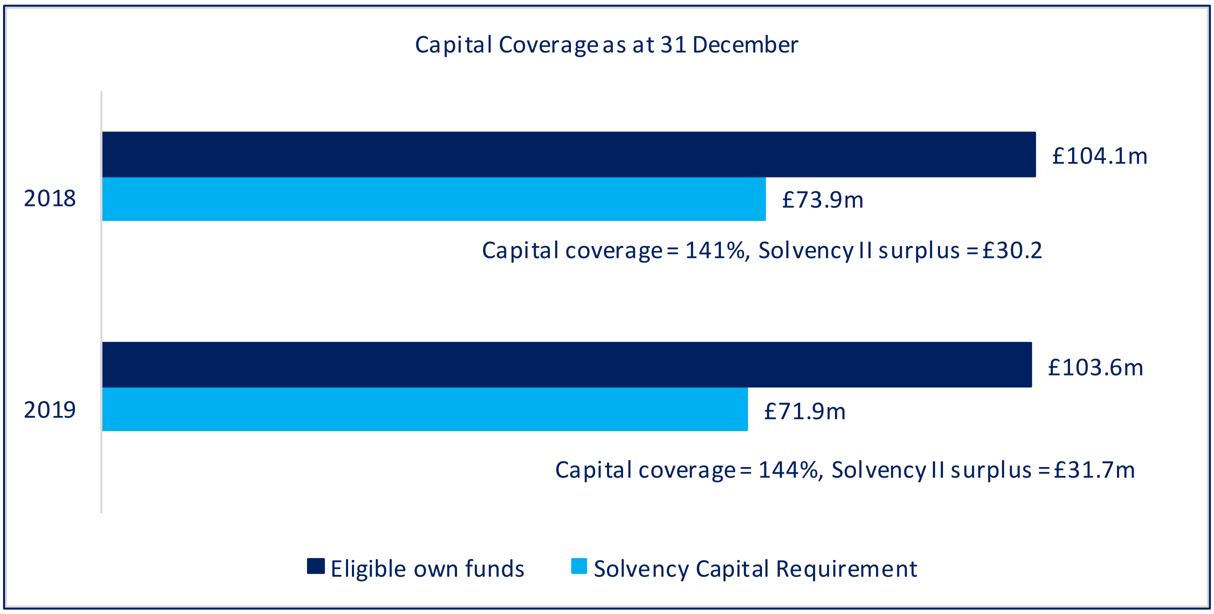


Further information on assets and liabilities is provided in section D.

CAPITAL MANAGEMENT

Our aim is to maintain sufficient capital to meet claims as they fall due, protect the interests of customers and meet operational needs and regulatory requirements. We hold adequate capital resources above the regulatory capital requirement. Our approach is to pay excess funds as a dividend (subject to ongoing business performance being within risk appetite, specific requirements in the Dividend Policy and other relevant factors).

We pay dividends to our parent company, GB Gas Holdings Limited. We paid interim dividends of £47m in May 2019 and £36m in December 2019. We expect to pay a further dividend of £39m in June 2020, reducing our own funds to £103.6m.



The minimum amount of capital that we must hold (our MCR) is £32.4m.

We have maintained sufficient own funds to meet both our Solvency Capital Requirement and our Minimum Capital Requirement throughout the reporting period.

Section E contains further information on capital management.

MEANING OF TERMS

Term	Meaning with this report
Capital coverage	Insurers are required to hold enough eligible own funds to cover the SCR. The capital coverage ratio, defined as eligible own funds divided by the SCR, must be at least 100%.
Counterparty default risk (credit risk)	Credit risk is defined as the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which British Gas Insurance Limited is exposed.
Market risk	Market risk is the risk of loss resulting from fluctuations in the level and volatility of market prices of assets and liabilities.
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.
Own funds Eligible own funds	Own funds represent the excess of assets over liabilities (on a Solvency II basis). Eligible own funds are own funds after approved dividends have been deducted.
Parent company	The parent company of British Gas Insurance Limited is GB Gas Holdings Limited, part of the Centrica Group.
Solvency II	Solvency II is an EU-wide regulatory regime.

Term	Meaning with this report
Solvency Capital Requirement (SCR)	The SCR represents the level of eligible own funds required to provide assurance that the Company can absorb significant losses in remote (1-in-200) scenarios, and still meet policyholders' claims costs and other obligations as they fall due.
Underwriting risk	Underwriting risk refers to fluctuations in the timing, frequency and severity of insured events relative to the expectations of the insurer at the time of underwriting.

There is also a glossary of terms in Section G.

DIRECTORS' REPORT

(Unaudited)

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and Solvency II Regulations.

We are satisfied that:

- throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and
- it is reasonable to believe that, at the date of the publication of the Solvency and Financial Condition Report, the Company has continued to comply, and will continue so to comply in the future.

For and on behalf of the Board of British Gas Insurance Limited:

Charles McLeod

Chief Financial Officer

01 June 2020

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF BRITISH GAS INSURANCE LIMITED ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion
Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2019, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- information contained within the relevant elements of the SFCR set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Summary', 'Business and performance', 'System of governance', 'Risk profile' and 'Appendix: Post balance sheet events (Coronavirus)' elements of the SFCR;
- Company templates S.05.01.02, S.05.02.01, S.19.01.21, S.25.02.21, S.25.03.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the SFCR includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standards as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting
We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and other relevant disclosures sections of the SFCR, which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

We have nothing to report in relation to these matters.

Other Information
The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the SFCR does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the SFCR, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in relation to these matters.

Responsibilities of Directors for the Solvency and Financial Condition Report
The Directors are responsible for the preparation of the SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report
It is our responsibility to form an independent opinion as to whether the relevant elements of the SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: https://www.frc.org.uk/auditorsresponsibilities.
The same responsibilities apply to the audit of the SFCR.

Other Matter
The Company has authority to calculate its Solvency Capital Requirement using a partial internal model (''the Model'') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements.
In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of British Gas Insurance Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in relation to this matter.

Use of our Report
This report is made solely to the Directors of British Gas Insurance Limited in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

Adam Addis, ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
01 June 2020

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo partial internal model

- The following elements of template S.02.01.02:
    - Row R0550: Technical provisions – non-life (excluding health) – risk margin
    - Row R0590: Technical provisions – health (similar to non-life) – risk margin
    - Row R0640: Technical provisions – health (similar to life) – risk margin
    - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) risk margin
    - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

- *The following elements of template S.17.01.02*
    - *Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin*
    - *Rows R0290 to R0310 – Amount of transitional measure on technical provisions*

- The following elements of template S.23.01.01
    - Row R0580: SCR
    - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of template S.28.01.01
    - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

INTRODUCTION

The requirement to produce an annual Solvency and Financial Condition Report follows the introduction of the Solvency II regime on 1 January 2016 for the EU insurance industry. This includes standards for assessing capital requirements and governance over risk management, with the principal objectives of improved comparability of information across the insurance industry and increased policyholder protection. The summary is intended for policyholders with the remaining sections aimed at analysts.

This report for British Gas Insurance Limited ("BGIL" or "the Company") presents information on business and performance, the system of governance, risk profile, valuation of assets and liabilities, and capital management.

Information about the business and performance of the Company is also included in BGIL's Annual Report and Financial Statements for 2019.

Parts of the SFCR are subject to external audit, as indicated, and explained in the Independent Auditor's report.

Figures are presented on a Solvency II basis, unless indicated otherwise.

A BUSINESS AND PERFORMANCE

(Unaudited)

A.1 BUSINESS

A.1.1 COMPANY INFORMATION

British Gas Insurance Limited is incorporated in the United Kingdom and registered in England and Wales under the company registration number 06608316. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under Financial Services Register number 490565.

Its registered office and details of its supervisors and auditor are as follows:

Registered Office
British Gas Insurance Limited
Millstream, Maidenhead Road
Windsor
Berkshire
SL4 5GD
+44 (0) 1753 494000

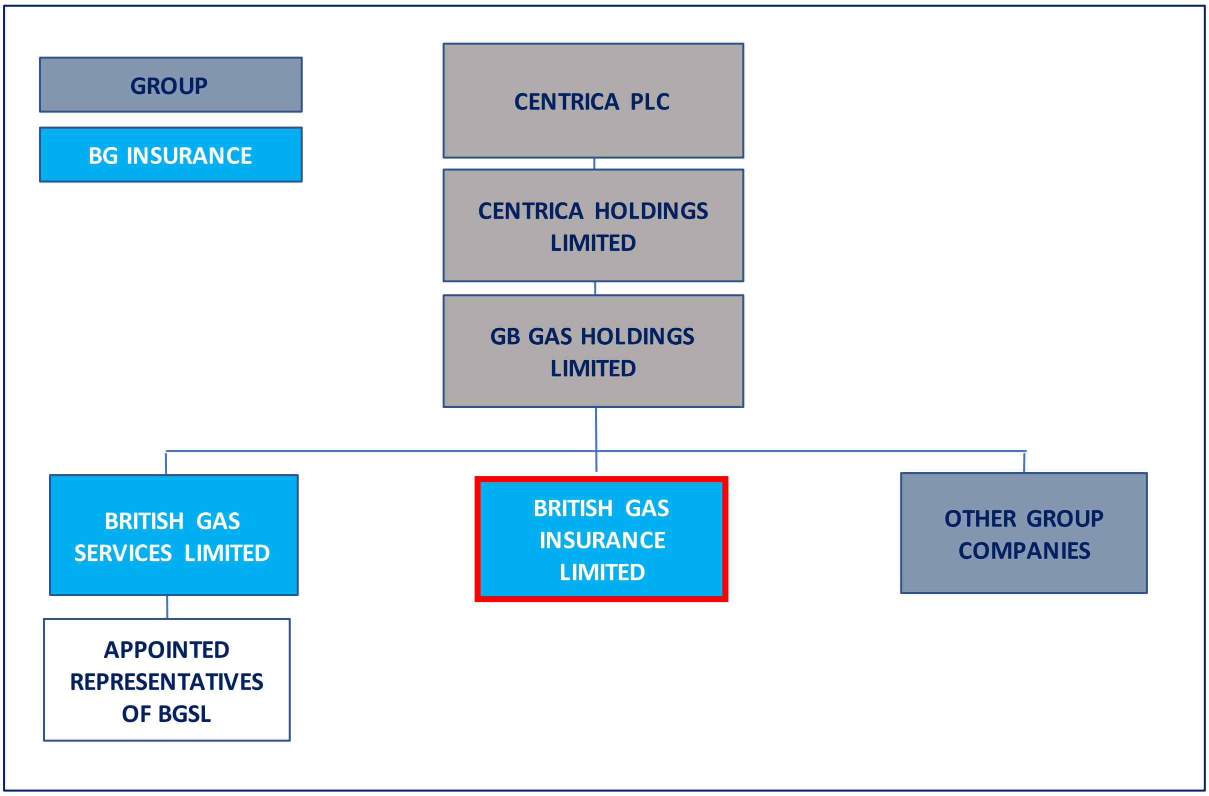
External Auditor
Deloitte LLP
Hill House
1 New Street Square
London
EC4A 3HQ
+44 (0) 20 7936 3000

Supervisory Authority
Prudential Regulatory Authority
20 Moorgate
London
EC2R 6DA
+44 (0) 20 7601 4444

Supervisory Authority
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN
+44 (0) 20 7066 1000

A.1.2 GROUP STRUCTURE

BGIL is a private company limited by shares and is a wholly owned subsidiary of GB Gas Holdings ("GBGH") Limited within the Centrica Group.



BGIL is part of the Centrica group. It outsources some services including sales, and claims handling & fulfilment to its sister company, British Gas Services Limited ("BGSL"), an insurance intermediary directly authorised and regulated by the Financial Conduct Authority.

Further information about the activities outsourced to BGSL are included in section B.7.

A.1.3 LINES OF BUSINESS

BGIL underwrites general insurance risks in the UK, within the assistance class of business, covering the breakdown of domestic boilers and central heating systems, plumbing & drains, and electrical and gas appliances. The Company does not write risks outside the UK.

A.2 UNDERWRITING PERFORMANCE

Under UK Generally Accepted Accounting Practice (UK GAAP[2]), the underwriting performance is as follows:

BGIL underwriting performance for the 12 months to 31 December (UK GAAP)	2019 £m	2018 £m
Gross written premium	997.5	1,033.8
Gross earned premium	1,011.8	1,023.2
Claims incurred	(456.4)	(514.0)
Expenses incurred	(471.1)	(436.2)
Underwriting profit (pre-tax)	**84.3**	**73.0**
Combined operating ratio (COR)	**91.7%**	**92.9%**

[2] The appended Quantitative Reporting Templates ("QRTs") show claims and expenses incurred on a Solvency II basis. There are differences in treatment in handling of claims expenses and profit commission.

The combined operating ratio ("COR") is the ratio of claims incurred and operating expenses to premiums earned. The 2019 COR is lower than the 2018 COR, and the underwriting profit has increased, reflecting warmer weather experience over the year resulting in lower boiler and central heating claims. Timing differences of changes to the unit claims costs paid by BGIL to BGSL, and changes to net premium rates paid by BGSL to BGIL also contribute to the increased profitability.

The number of policies in force increased by 0.7% in the year to 7.8m at 31 December 2019 (2018: 7.7m). Gross written premium was 3.5% lower than in 2018 reflecting a change in product mix.

No reinsurance contracts were entered into during the current or prior years.

A.3 INVESTMENT PERFORMANCE

A.3.1 INVESTMENTS BY ASSET CLASS

Investments held by BGIL are shown below. BGIL invests in short duration, high-quality securities and deposit-based investments.

Investments as at 31 December	2019 £m	2018 £m
Collective investment undertakings	168.6	129.7
Cash deposits	0.0	40.3
Total investments	**168.6**	**170.0**

The cash deposits matured in 2019 and a decision was made not to reinvest in cash deposits and instead the proceeds were invested in collective investment undertakings.

A.3.2 INVESTMENT INCOME AND EXPENSES

Investment income for 12 months to 31 December	2019 £m	2018 £m
Investment income	1.4	1.3
Investment expenses	(0.2)	(0.2)
Net investment income	**1.3**	**1.1**

All investment income and expenses relate to unit holdings in short-term money market funds and deposits with financial institutions. Expenses represent fees paid to investment managers.

A.4 PERFORMANCE OF OTHER ACTIVITIES

BGIL pays dividends to its parent company, GB Gas Holdings Limited. BGIL paid interim dividends of £47m in May 2019 and £36m in December 2019. The Board have approved a further dividend of £39m due to be paid to GBGH Limited in June 2020.

Further information is in section E.1.

A.5 ANY OTHER INFORMATION

BGIL does not invest in equity or have any investments in securitisation.

There is no other information to report.

B SYSTEM OF GOVERNANCE

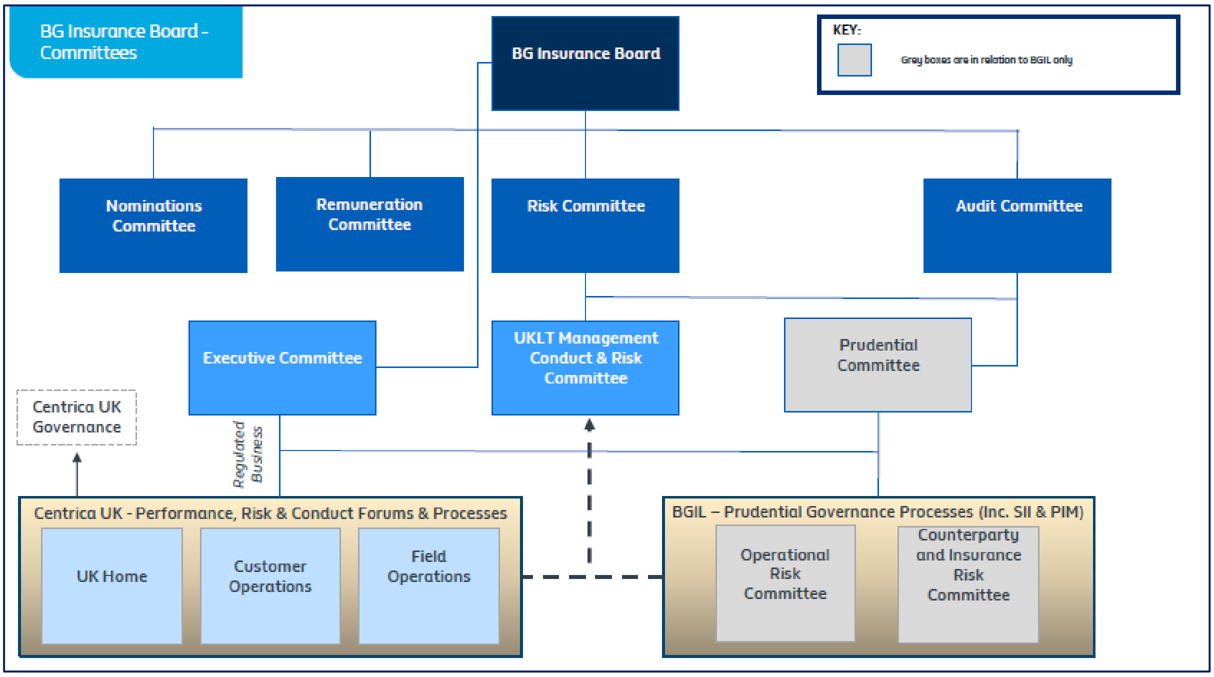
(Unaudited)

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

A review of governance of BGIL and its sister company, BGSL, was undertaken in 2018. Following engagement with the PRA and FCA, a new governance structure was implemented with effect from 1 January 2019. Although BGIL and BGSL remain separate legal entities, a common Board, Risk Committee, Audit Committee and Nominations & Remuneration Committee[3] have been created. New members have joined the Board (section B.1.3) and internal structural changes have taken place to support alignment of internal processes and operations within the governance structure.

B.1.1 GOVERNANCE STRUCTURE

The committee structure for BG Insurance (BGIL & BGSL) is shown below. The grey boxes relate to BGIL only[3,4].



B.1.2 ROLES AND RESPONSIBILITIES

Board

The Board has overall responsibility for the oversight of the management of BGIL. Its objectives include setting the strategic aims, monitoring management's performance against those aims, setting risk appetite and ensuring that effective controls are in place. Any major changes to the Company's business activities must be approved by the Board before implementation. The Board meets at least four times a year. Minutes of all Board meetings are recorded and reflect the substance of the discussions as well as the decisions made.

The Board comprises an independent non-executive chair, non-executive directors and executive directors.

[3] The Nominations & Remuneration Committee was split into two separate committees with effect from 1 January 2020.

[4] Investment Committee matters were incorporated into the Prudential Committee during 2019, removing the need for a separate Investment Committee.

Board Sub-Committees

All authority flows from the Board, but it delegates to sub-committees. Responsibilities are set out in the respective terms of reference.

The following sub-committees are in place for BG Insurance (BGIL & BGSL):

- The Nominations & Remuneration Committee[5]: responsible for the nomination and approval of senior management appointments and for the effective operation of the Remuneration Policy.
- The Risk Committee: responsibilities include monitoring and reviewing the activities of the Risk Function and the Compliance Function, monitoring and reviewing the risk management and controls system, monitoring and overseeing conduct risk, and monitoring and overseeing the development and use of BGIL's Partial Internal Model. The committee meets at least four times a year.
- The Audit Committee: the key objective of the committee is to monitor the integrity of the financial statements, including any financial judgements contained therein. The committee meets as required to fulfil its obligations, at least four times a year.

Executive Committees

The Board and its sub-committees are supported by the following Executive committees:

- The Executive Committee: responsible for managing the BG Insurance business and developing and leading the delivery of the strategy.
- The Management Conduct & Risk Committee: responsible for maintaining risks to BGIL (and the wider UK Consumer business) within acceptable levels and for maintaining a sound enterprise risk management framework with appropriate internal controls. It specifically monitors conduct performance and ensures it is monitored and assessed against agreed risk appetite.
- The Prudential Committee: assists the Executive, Board and Risk and Audit Committees on specific BGIL financial and Solvency II processes supporting capital calculations, Own Risk and Solvency Assessment ("ORSA") processes, internal model governance, Solvency II reporting and balance sheet assurance.

Executive Sub-Committees

The Executive committees are supported by the following sub-committees.

- Operational Risk Committee: responsible for managing the operational risk framework.
- Counterparty & Insurance Risk Committee: responsible for managing the counterparty[6] and insurance risk framework.
- Investment Committee: responsible for market risk. The consideration of investment matters moved to the Prudential Committee during 2019, removing the need for a separate Investment Committee.

The Management Conduct & Risk Committee is also supported by several committees that support the operational needs of BGIL and BGSL.

Key Functions

BGIL has the following Solvency II key functions:

- Risk Function (section B.3).
- Compliance Function (section B.4).
- Internal Audit (section B.5).
- Actuarial Function (section B.6).

[5] The Nomination & Remuneration Committee has been split into two separate committees with effect from 1 January 2020.
[6] Prior to 30 September 2019, counterparty risk was managed in the same committee as operational risk.

B.1.3 MATERIAL CHANGES TO THE SYSTEM OF GOVERNANCE OVER THE REPORTING PERIOD

In preparation for the new governance arrangements outlined at the start of this section, changes were made to the Board in Q3 and Q4 of 2018. Further changes were made over the reporting period as follows:

- Amanda Bowe (senior independent non-executive and chair of the Risk Committee) appointed on 2 January 2019.
- Elizabeth Catchpole (independent non-executive and chair of the Audit Committee) appointed on 2 January 2019.
- Sarwjit Sambhi (executive) appointed on 2 January 2019 and resigned on 13 September 2019.
- Stuart Vann (independent non-executive) appointed on 23 January 2019.
- Matthew Bateman (executive) appointed on 3 April 2019.
- Stephen O'Dwyer (executive) resigned on 13 May 2019.
- Charles McLeod (executive) appointed on 13 May 2019.
- John Castagno (independent non-executive) resigned on 30 June 2019.
- David Kirwan (executive) appointed on 13 September 2019.
- David Johnson (executive) resigned on 30 September 2019.
- Leigh Tavaziva (executive) appointed on 22 November 2019.

B.1.4 REMUNERATION POLICY

All independent non-executive directors are on contracts for services. Employees working on BGIL matters are employed under Centrica (or other Group company) contracts but BGIL has its own Remuneration Policy which is aligned to the Centrica plc reward framework and remuneration principles. It applies to BGIL's management and key employees whose professional activities have a material impact on BGIL's risk profile.

The key goal of the reward philosophy is to attract and retain top talent and motivate high performance while rewarding the right skills, behaviours and outcomes necessary to meet the long-term business strategy and ensure fair treatment of customers. Remuneration is managed and structured in line with PRA regulations with the fixed component of an individual's remuneration representing an appropriate proportion of total remuneration so that bonus payments do not skew decision making towards short term benefits.

The BGIL Remuneration Policy includes the following components:

- Base salary.
- Annual performance incentive plan: designed to reward in-year performance. The financial performance of Centrica plc over the year determines the amount of funds available to distribute to employees, with individual awards based on performance against individual objectives that align with Centrica's and BGIL's business strategies. The target and maximum annual performance incentive payment is typically defined as a percentage of base salary.
- Conditional share incentive plan: designed to encourage senior employees to focus on the long-term sustainability of the business and to align their compensation to shareholder experience. The award is delivered as deferred shares. Claw-back and malus provisions apply.
- Pension: new hires are offered membership of the Centrica defined contribution arrangement with a defined benefit arrangement in place for employees who joined prior to 2009. BGIL has no pension scheme of its own. BGIL has no material pension liabilities in respect of the defined benefit scheme.
- Benefits: Centrica offers other benefits including car allowance, life assurance and flexible benefits.
- Share plans: All UK-based employees are entitled to participate in HMRC-approved share plans.

B.1.5 MATERIAL TRANSACTIONS

No material transactions have been identified during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body, notwithstanding the changes to the governance arrangements outlined in section B.1.3.

B.2 FIT AND PROPER REQUIREMENTS

BGIL implements policies and procedures to ensure persons who effectively run the Company, or have responsibility for key functions, have the required skills, knowledge and expertise to carry out the role and are fit and proper to do so. Individuals holding Senior Manager Function positions are also required to receive prior approval from the PRA and/or FCA before they can perform their role.

BGIL undertakes fitness and propriety assessments in the following circumstances:

- Before an individual starts to undertake their role.
- Annually, to assess their 'continued fitness' to undertake their role.
- When an individual's role has significantly changed.
- Where there is a potential issue disclosed by an individual which might affect how their fitness and propriety is viewed.

BGIL's overall assessment of an individual's fitness and propriety includes:

- Financial soundness: assessed by conducting financial checks and asking specific questions as part of the fitness and propriety questionnaire.
- Honesty, integrity and reputation assessed through:
    - Fitness and propriety questionnaire/attestation.
    - Regulated references.
    - Standard criminal record check.
    - Directors/Companies House check (including disqualifications/dissolutions).
    - HR record check for existing employees (disciplinary and/or breaches of conduct rules).
- Competence and capability: during recruitment, at a point where an individual is being considered for a key function or as part of an annual assessment, a competence and capability assessment is carried out. The assessment considers:
    - Qualifications (where relevant).
    - Experience.
    - Current level of competence and personal characteristics.
    - Skills and knowledge gap analysis which will inform a tailored business induction and development plan.

The key areas that are considered as part of the skills and knowledge analysis include:

- The markets in which they operate (i.e. insurance or financial services).
- Business strategy and business model.
- System of governance.
- Financial and, where relevant, actuarial analysis.
- Regulatory framework and requirements.
- Objectives linked to delivering regulatory obligations and evidence of performance (as part of end of year review) confirmed by line manager.

BGIL has complied with the Senior Managers & Certification Regime over the year.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1 CHIEF RISK OFFICER

The Risk Function is led by the Chief Risk Officer ("CRO") whose role includes responsibility for:

- The design, development, embedding and overseeing of the risk management strategy and risk management processes.
- Coordination of the ORSA processes and reporting.
- The compliance relationship with the PRA.
- Validation and performance of BGIL's capital model.

B.3.2 RISK MANAGEMENT FRAMEWORK

BGIL's risk management system starts with its Enterprise Risk Management Framework, the primary objective of which is to ensure that processes are in place for effective planning, organising, leading and controlling of BGIL activities to manage the effect of risk on BGIL's capital and earnings, while ensuring good customer outcomes and employee safety.

Governance is achieved through the implementation of a 'three lines of defence' model that ensures appropriate segregation of risk ownership, oversight and assurance responsibilities.

- First line: ownership of risk taking and risk management in respect of business as usual activities, change and strategy.
- Second line: protecting and enabling the business to achieve its objectives by providing advice and oversight of risk taking and risk management, while developing and delivering the relevant tools and methodologies to support business risk taking.
- Third line: independent and objective assurance of the effectiveness of risk management and internal controls through Internal Audit.

Risk management is embedded in the business and members of the risk team attend key meetings held by BGIL and BGSL business functions. Furthermore, a CRO opinion is provided to the Board and its sub-committees in respect of key decisions.

B.3.3 RISK MANAGEMENT SYSTEM

Risk Policies

To support its objectives, BGIL's risk management framework includes a comprehensive set of risk policies which cover the partial internal model as well as all material risk categories to which BGIL is exposed. They are approved annually by the Board and/or appropriate sub-committees.

Risk Appetite Statements

Risk appetite is the amount of risk the Board is willing to take to meet its strategic objectives.

Risk appetite statements are reviewed annually and approved by the Board.

The Risk Function is responsible for monitoring and reporting against the risk appetite statements. If a risk appetite threshold has been (or is close to being) breached, action is taken to bring it back within the accepted range. Out of appetite statements are reported to the Board and relevant sub-committees.

B.3.4 RISK PROCESSES

BGIL's risk management system includes the five processes below:

Identification

BGIL identifies current, emerging and future risks through various means such as meetings, workshops and seminars.

Once a new or emerging risk has been identified a risk owner is assigned and the risk is added to the risk register.

Measurement

BGIL measures risk using output of its partial internal model (section B.3.5). In addition, risks are quantified through a suite of stress and scenario tests undertaken by the Risk and Actuarial Functions. The prioritisation of the risks is measured using a likelihood and severity matrix approach.

Management

A comprehensive controls framework exists which ensures risk is managed within agreed appetite and threshold levels.

Monitoring

Monitoring to ensure that risks are accurately evaluated and adequately controlled is integral to the risk management processes. Monitoring is achieved through the BGIL controls framework, stress and scenario testing, risk and control owner reviews, second line monitoring by the Risk and Compliance Functions, and third line of defence reviews.

Reporting

Risk reporting and communication forms a vital part of the process to ensure visibility and transparency of risks at both a BGIL and a Group level. Various risk reports are produced including risk dashboards and the ORSA report.

B.3.5 RISK MODELLING

BGIL has a partial internal model which it uses to calculate its SCR. Further details are provided in section E.2.

Oversight of the partial internal model is provided in the first instance by the Operational Risk Committee, and the Counterparty & Insurance Risk Committee. The Prudential Committee is responsible for reviewing and challenging the SCR. Oversight is also provided by the Risk Committee, which is responsible for the ongoing appropriateness of the design and operation of the model, as well as for reviewing all model changes and validation reports.

Although the governance structure of BGIL has changed, there have been no material changes to the governance of the model over the reporting period.

Independent validation of the modelling underlying the SCR is undertaken by the Risk Function, supported by an external firm, currently Willis Towers Watson. BGIL’s capital model is subject to a cycle of validation using appropriate techniques for the part of the model under review. It considers the appropriateness of the scope of the model and covers all parts of the model, adopting a proportionate approach, recognising the materiality of each model component.

The Board is required to approve BGIL’s SCR, appropriate summaries of internal model results and validation reports on an annual basis.

B.3.6 OWN RISK AND SOLVENCY ASSESSMENT (“ORSA”)

The ORSA enables senior management to make business decisions relating to medium term capital management and business planning. The ORSA process is cyclical and incorporates several underlying business processes. The full cycle is performed at least annually, or more frequently if required in response to material changes in the internal or external environment.

The ORSA:

- Considers risks, solvency and capital management over a three-year forward-looking horizon.
- Considers all the key risks that face the business, including risks not in the SCR such as liquidity and strategic risks.
- Considers the link between the resulting risk profile, the approved risk appetite and the capital requirements.
- Includes stress and scenario testing and reverse stress testing.

The Board own the ORSA process with the CRO being responsible for coordinating the underlying ORSA processes and for producing an ORSA report. The underlying processes are undertaken throughout the year and reports for each key process are produced for the Board and reviewed by the Prudential Committee and Executive Committee. The ORSA report, which contains the key results and conclusions of the underlying processes, is reviewed by the Board and Risk Committee, and approved by the Board.

The underlying ORSA processes are undertaken alongside the relevant activity in the business. For example, the CRO provides an opinion on the business plan, and the Risk Function work with Finance to understand the key risks underlying the business plan. Similarly, the SCR allows for key changes in the business plan, and stress testing is performed having regard to the key risks to the business.

The Board seeks to hold adequate capital resources above the regulatory capital requirements. BGIL's capital model is used to determine adequacy thresholds and capital resources are regularly monitored, with a plan in place should capital fall below the specified thresholds.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 INTERNAL CONTROLS FRAMEWORK

BGIL has an internal controls framework designed to provide assurance that business objectives, including good customer outcomes and compliance with regulations, are met.

The three lines of defence model (section B.3.2) is used within the controls framework as follows:

- The first line develops controls and performs a control self-assessment.
- The Risk Function provides a second line of defence by:
    - Coordinating control related activities and implementing the controls framework.
    - Supporting the first line in developing their controls and providing oversight of first line control self-assessments.
    - Managing the second line review of controls and performing gap analyses of all controls against regulatory frameworks.
    - Performing control effectiveness reviews.
- Internal Audit are responsible for a third line review of controls.

Governance over the internal control framework is achieved through:

- The Management Conduct & Risk Committee:
    - Responsible for ensuring that effective risk management processes are in place within the first line to manage and control the risks to which the business is exposed.
    - Responsible for reviewing controls reports and ensuring the completeness and effectiveness of the control environment.
- The Prudential Committee: responsible for monitoring and managing the performance of financial controls.
- The Risk Committee:
    - Overarching responsibility for the design, maintenance and improvements to the internal control framework.
    - Responsible for oversight of the effectiveness of key controls, including the operation of an integrated assurance plan, across the business.

B.4.2 COMPLIANCE FUNCTION

The CRO is responsible for leading the Solvency II Compliance Function. Activities of the Compliance Function include:

- Ensuring ongoing prudential compliance, including horizon scanning activity.
- Managing the relationship with the PRA.

BGIL outsources conduct-related compliance to the Group Ethics & Compliance Function which is responsible for:

- Developing, implementing and communicating the ethics & compliance FCA strategy, structure and process.
- Responsible for escalating the FCA compliance matters to BGIL, reporting to the Board and other relevant stakeholders.
- Responsible for FCA relations and notifications.
- Responsible for FCA/PRA applications, amendments and withdrawals.

The Risk and Compliance Functions report to the Risk Committee.

The effectiveness of the Risk and Compliance Functions is periodically audited by Internal Audit. The Internal Audit plan is cyclical and in 2019 the Group Ethics & Compliance ("E&C") Function was reviewed, with the conclusion that the UK&I E&C functional assurance team has a maturity of 'established', demonstrating good practice.

B.5 INTERNAL AUDIT FUNCTION

Internal Audit services for BGIL are performed by the Group Internal Audit Function. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the governance and internal control processes in relation to defined goals and objectives. Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee, including certain fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

To provide for the independence of Internal Audit, its employees report to the Group Head of Internal Audit, Controls and Risk, who reports functionally to the Chair of the Group Audit Committee and administratively to the Group Chief Financial Officer. The operating budget for Internal Audit is prepared according to standard Group guidelines as part of the Group's operating plan process. The Group Audit Committee have ultimate approval over the budget. Internal Audit follow all standard Group processes (e.g. delegation of authority) and adhere to all Group policies.

B.6 ACTUARIAL FUNCTION

The Actuarial Function undertakes, amongst others, those tasks required by Solvency II. The Chief Actuary chairs the Prudential Committee, a key executive committee within the governance structure of BGIL (section B.1.2). An actuarial function report is produced annually for the Board which describes the tasks undertaken by the Actuarial Function over the year, provides recommendations, and includes opinions on technical provisions, the underwriting policy and the reinsurance policy.

The Actuarial Function is led by the Chief Actuary (SMF20). This position was led by the Director of Underwriting and Actuarial until 30 September 2019. There was potential for conflict of interest in respect of the underwriting and reinsurance opinions, which was mitigated by a triennial independent third-party review.

From 1 October 2020, the Chief Actuary position has been held by the Chief Actuarial Officer. The role of Chief Underwriting Officer has been held by a different individual since 1 October 2019 and so the potential conflict of interest relating to the underwriting and reinsurance opinion has been removed. Actuarial Function responsibilities are conducted independently of the revenue generating functions of BGIL and the Chief Actuary reports to the Chief Executive Officer with a direct escalation route to the Chair of the Risk Committee.

At all times, the Chief Actuary has had unrestricted access to relevant information and is not constrained, controlled or unduly influenced in respect of relevant actuarial matters.

Resources in the Actuarial Function are continuously monitored to ensure that the work is carried out by persons who have knowledge of actuarial and financial mathematics commensurate with the nature, scale and complexity of the risks inherent in the business.

B.7 OUTSOURCING

BGIL has outsourcing arrangements for the provision of material services by third party service providers. Material services are those which are critical to the business model or are of such importance that weakness, or failure, of the services would cause detriment to customers and/or cast serious doubt upon an ability to meet regulatory requirements. BGIL will only outsource material services to group companies. Non-material services may be outsourced to external service providers if the services cannot be obtained in-house.

Material services outsourced by BGIL are as follows:

Services outsourced to British Gas Services Limited	Services outsourced to Group (Centrica plc)
Sales and marketing	Some Ethics and Compliance activities including FCA Compliance.
Product design	Finance
Policy administration	Treasury
Claims handling	Internal Audit
Claims fulfilment	Information systems and technology (IT)
Complaints handling	Human resources (HR)
Retail pricing	

No customer facing activities are outsourced outside the UK although some support services that are provided by Centrica, but are not critical to BGIL, are outsourced overseas.

Centrica Procurement has a Financial Services Material Outsource Procedure which covers BGIL's outsourcing arrangements and has been designed to meet relevant regulations. Services agreements between BGIL and BGSL, and BGIL and Centrica set out the activities undertaken by each entity.

The establishment of a common Risk Function, Risk Committee and Board across both BGIL and BGSL ensure that risks relating to these services are actively monitored and managed.

B.8 ANY OTHER INFORMATION

B.8.1 ADEQUACY OF SYSTEM OF GOVERNANCE

The system of governance is considered appropriate having regard to the nature, scale and complexity of the risks inherent in the business.

B.8.2 BOARD DIVERSITY POLICY

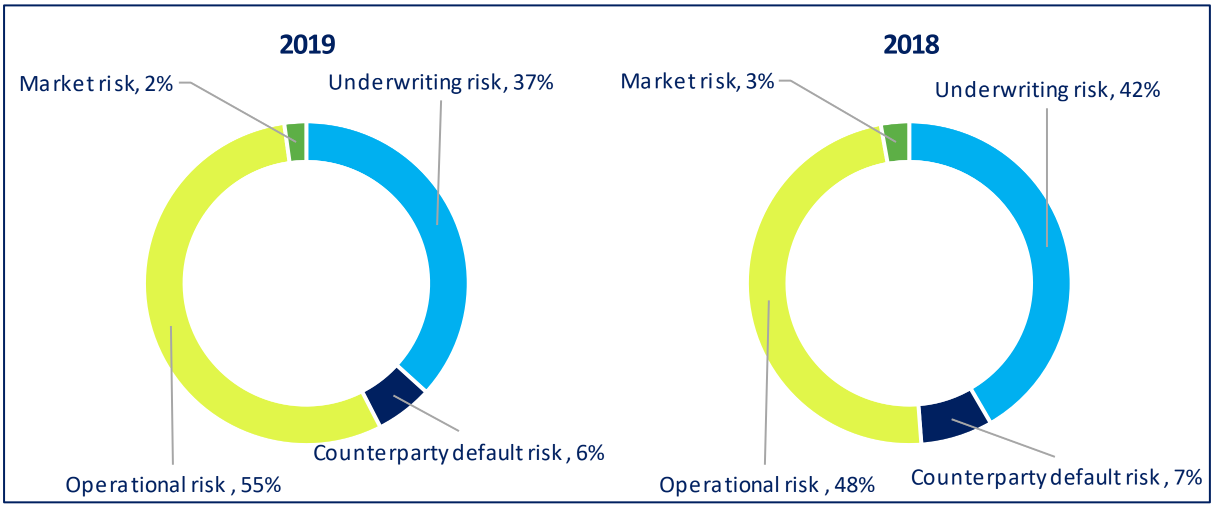
The Board ensures diversity in recruitment processes and actively promotes diversity at all levels in the business through its Diversity Policy.

Throughout the process of appointment of Board members, due regard is given to ensuring fairness and diversity through consideration of skills, experiences and competencies. The recruitment process complies with Group HR recruitment processes and the Centrica UK Diversity, Respect and Inclusion Policy.

C RISK PROFILE

(Unaudited)

BGIL's risk profile is a key driver of the SCR. The following chart shows how it has changed over the reporting period.



The assessments above[7] relate to BGIL's SCR. Note that liquidity risk (section C.4) and other risks (section C.6) are not part of the SCR calculation and so are excluded.

BGIL's operational risk is large compared to its underwriting risk. This is mainly because BGIL's underwriting risk is relatively low due to the quick settlement of claims at a fixed unit cost per claim.

BGIL is exposed to material risk concentrations as follows:

- Product concentration (underwriting risk): BGIL is a mono-line insurer operating only in the UK with large exposure to cold weather risk.
- BGIL's outsourcing relationship with BGSL (section B.7) creates risk concentrations in terms of counterparty default risk (section C.3) and operational risk (section C.5).

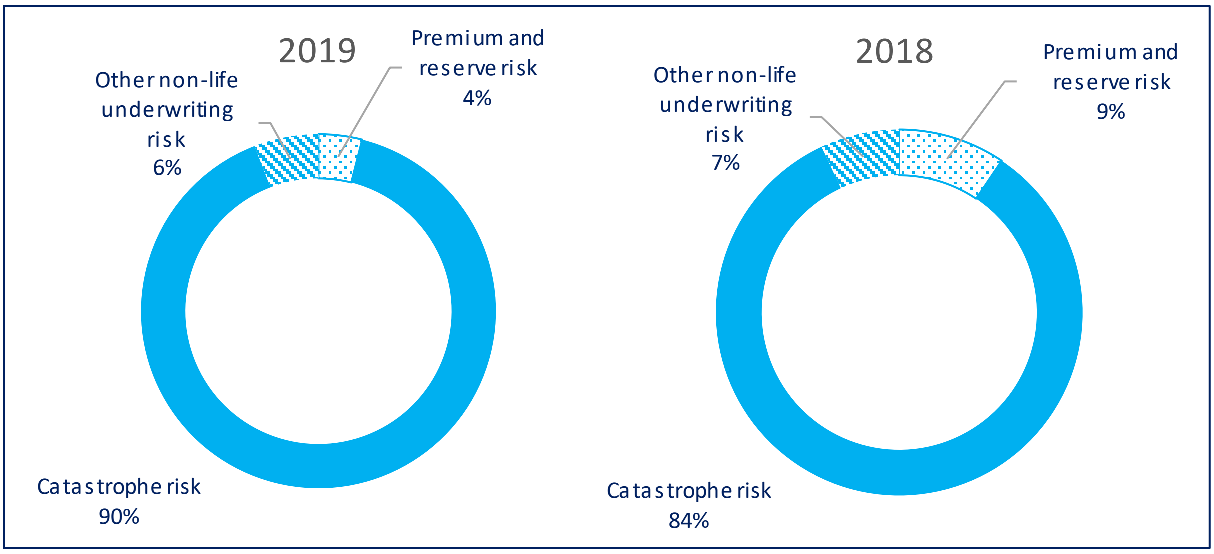
C.1 UNDERWRITING RISK

Underwriting risk refers to fluctuations in the timing, frequency and severity of insured events relative to the expectations of the undertaking at the time of underwriting as well as fluctuations in premium volumes relative to the business plan.

The composition of BGIL's underwriting risk profile is shown below[7]. The main change in underlying risk relates to a reduction in exposure following a review of the terms of the intercompany agreement between BGIL and BGSL. Changes have been made to the split of costs between BGIL and BGSL with the aim of improving customer outcomes.

Underwriting risk is assessed using BGIL's internal model and further details about the quantification of underwriting risk are included in section E.2.3.

[7] The assessments are based on pre-diversification across risk-type figures.



BGIL's underwriting risk consists of three main elements:

- Catastrophe risk: cold weather risk is BGIL's main driver of underwriting risk. In cold weather there is an increased demand on central heating systems, leading to higher boiler breakdown rates and therefore increased claims.
- Premium and reserve risk: considers the volatility of actual claims and premiums compared to those forecast in the business plan. In BGIL, premium and reserve risk is low due to:
  - BGIL's very short claims development tail: claims are usually reported and settled within a few days.
  - The contractual unit claims cost relationship with BGSL: BGIL pay BGSL a fixed unit cost per claim varying by product.
- The inherent nature of the insurable risks: in most cases, an engineer attends breakdowns rather than the settlement of the claim in cash.

Other non-life underwriting risks relate to component defect, policy wording and pricing of premiums.

BGIL has several processes and controls in place to manage underwriting risk, including:

- 12-month contract terms after which the Company is entitled to decline cover, or impose renewal terms by amending premiums, policy excess (where applicable), or other policy terms and conditions as appropriate.
- First visits: when a customer first purchases a central heating policy, an engineer visits their property to assess access, safety and insurability. If the findings are adverse, then BGSL works with the customer to address the issues, or the cover is declined. For some products where a first visit does not take place, such as breakdown only, claims cannot be made within 14 days of policy inception.
- Annual service visits.

C.2 MARKET RISK

C.2.1 MARKET RISK PROFILE

Market risk is the risk of loss resulting from fluctuations in the level and volatility of market prices of assets and liabilities.

BGIL's long-term financial strategy is to facilitate growth without undue balance sheet risk. Its investment strategy is guided by its Investment Risk Policy which aims to mitigate market risk by restricting investments to short duration, sterling-denominated high-quality securities and deposit-based investments. As a result, market risk (calculated using the Standard Formula (section E.2.4)) is low.

C.2.2 PRUDENT PERSON PRINCIPLE

The Prudent Person Principle, defined in Article 132 of the Solvency II Directive, includes provisions on how undertakings should invest their assets and is as much a behavioural standard as an assessment of judgements and investment decisions.

The Board is responsible for setting the overall investment risk appetite for BGIL which is articulated through the risk parameters contained in the Investment Risk Policy. The Board approves the expected investment return as part of the annual operating plan process and monitors investment performance against the plan.

Investment strategy and asset allocation is set within the Board approved risk parameters contained within the Investment Risk Policy. The Prudential Committee review and monitor the key risk indicators for the investments including performance against targets, value at risk, counterparty exposures, overall credit rating exposures and liquidity levels.

C.3 CREDIT RISK

Credit risk is defined as the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which BGIL is exposed.

C.3.1 COUNTERPARTY DEFAULT RISK

The exposure to counterparty default risk arises due to BGIL's relationship with BGSL. Since BGSL collects premiums from customers on behalf of BGIL, the insolvency of BGSL could result in premiums not being paid to BGIL.

A services agreement exists between BGIL and BGSL which governs the relationship and sets out the business model interactions. Under this contract:

- BGSL pays premiums to BGIL.
- BGIL pays BGSL for each service visit or repair.
- BGIL pays BGSL commission for its role in selling and administering insurance policies on BGIL's behalf.
- The difference between the amount payable to BGIL from BGSL and that payable from BGIL to BGSL is the intercompany balance.

Several processes are in place to mitigate BGIL's exposure to counterparty default risk, including:

- The services agreement requires intercompany balance payments to be made monthly to limit exposure to a maximum of one month's debt.
- A trust arrangement has been set up, to which premiums must be diverted in the event of BGSL default.

There have been no material changes to BGIL's counterparty default risk profile over the year. The risk is assessed using BGIL's partial internal model (section E.2.5).

C.3.2 OTHER CREDIT RISK

The only material exposure to credit risk is from BGSL, as described above. Exposure to credit risk on assets and liabilities on the balance sheet is not material. BGIL does not have any outwards reinsurance and has not transferred any risk to special purpose vehicles.

C.4 LIQUIDITY RISK

Liquidity risk is being unable to realise investments and other assets to settle financial obligations when they fall due.

Liquidity risk for BGIL is low and is mitigated through investment in highly liquid financial assets and regular monitoring of expected asset and liability maturities. Cash flows are forecast regularly to ensure appropriate liquidity levels are maintained. Annual liquidity stress testing is undertaken.

Expected Profit in Future Premium (EPIFP), calculated in accordance with Article 260(2) of the Solvency II Delegated Act, amounted to £44.1m at 31 December 2019 (2018: £33.1m).

C.5 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. It also includes conduct risks and regulatory risks.

A consequence of BGIL's outsourcing arrangements with BGSL (section B.7) is that many of BGIL's operational risks are derived from BGSL activities. Conduct risk is the main driver of BGIL's operational risk capital requirement. This relates to the risk that poor customer outcomes will lead to premium refunds, higher lapses, a reduction in new business and additional remediation costs.

Over 2019, the main mitigation controls for conduct risks were close oversight of BGSL's activities through the common Board and sub-committees, and managing the outsourcing agreement between the two companies, which enables BGIL to recover costs from BGSL for any contractual breaches. BGIL also hold capital to fund potential losses arising from operational events. The amount of capital held in respect of conduct risks has decreased due to the improved oversight of BGSL following the embedding of the new governance arrangements.

Other key risks include tax & levies risks, and the risk of loss or impairment of BGSL. As with all companies that hold customer data, BGIL is exposed to cyber risk which is very closely monitored, particularly with regards to the loss of key IT systems and data protection.

There is currently a Centrica-wide strategy to drive cost efficiencies and improve organisational effectiveness. While the changes will provide long-term benefits to the business, they have created short-term risk, increasing BGIL's change management risk. The changes are being closely monitored.

Operational risk is assessed using BGIL's partial internal model (section E.2.6).

C.6 OTHER MATERIAL RISKS

Coronavirus ("COVID-19")

Information is included in Section F.

Group Risk

The British Gas brand has a high profile in UK consumer markets and BGIL has potential exposure to brand damage contagion caused by other parts of the Group or the energy market in general. The principal direct impact of British Gas brand damage to BGIL would be a reduction in business volumes through a loss of existing business.

C.7 ANY OTHER INFORMATION

C.7.1 SENSITIVITY ANALYSIS

The following table shows some sensitivities for the most material risks, assuming that each sensitivity occurs in isolation, with no other changes.

Risk type	Sensitivity	Impact on SCR for risk type	Impact on overall SCR
Cold weather (catastrophe underwriting risk).	Increasing cold weather exposure by 10%.	10%	5%
Operational risk	Increasing the number of premium refunds within product risk by 30%.	13%	8%

A one-notch downgrade in the credit rating assumed for BGSL would not have a material impact on the SCR and sensitivity analysis is not presented for market risk since it is a small proportion of BGIL's overall risk profile.

C.7.2 STRESS AND SCENARIO TESTING

Stress and scenario testing is part of BGIL's risk management process and is used to evaluate its financial position under severe but plausible events. Its value lies in enhancing management understanding of the financial vulnerability and viability of BGIL.

Stress and scenario testing assesses the financial effect of the events that lead to specific scenarios so that their causes can be identified, and their effects can be understood. The fuller appreciation of risk assists with decision making and model validation.

Stress and scenario testing is conducted at least annually. The scenarios are considered to be more extreme than 1-in-200 and the analysis reflects the Board's risk appetite with regards to capital surplus. The analysis conducted in 2019 highlights that BGIL is able to recover financially from extreme scenarios. The ability to withhold or defer dividends are key management actions in enabling such recovery.

BGIL has a recovery framework and plan which defines roles and responsibilities and sets out the management options that could be taken in times of stress to facilitate the recovery of BGIL's own funds.

C.7.3 REVERSE STRESS TESTING

BGIL also undertakes reverse stress testing which considers circumstances that would render BGIL's business model inviable, thereby identifying potential business vulnerabilities. Reverse stress testing starts from an outcome of business failure and identifies potential circumstances which might trigger this. This includes the extreme risks which are usually dismissed on the basis that they are very unlikely to happen and is different to general stress and scenario testing which assesses outcomes arising from changes in circumstances.

The reverse stress testing exercise reaffirmed the very low likelihood of BGIL becoming inviable. The potential causes of inviability were explored and such causes, while not impossible, are judged implausible given the nature of BGIL's business and risk profile. Should business failure occur, BGIL has a documented plan to ensure that run-off would be made in a structured way leading to an orderly exit from the insurance market.

C.7.4 CLIMATE RISK

The Bank of England has identified two key risks relating to climate change:

- Physical risks such as extreme weather events:
  - BGIL includes a 1-in-200 cold weather scenario in its SCR and considers more extreme weather events as part of its stress and scenario testing.

- Transition risks arising from a move to a greener economy which could lead to a large fall in asset values in some sectors, or a higher cost of doing business:
    - There is a risk to the market within which BGIL operates, from a potential move from gas to other forms of energy such as battery storage.
    - BGIL invests in short duration, high-quality fixed interest securities and deposit-based investments so is less exposed to transition risks through its asset strategy.

BGIL is part of the Centrica group who are tackling climate change by reducing emissions across the business and providing products and services that lead to a lower carbon future. Centrica is developing plans to achieve net zero by 2050 and is developing sustainable energy technologies to help customers reduce their emissions by 25% by 2030. Initiatives include Hive Active Heating, and the installation of low carbon solutions such as solar and electric vehicle charging solutions.

In 2019 BGIL collated pre-existing and new thinking on climate change into a consolidated stress and scenario test for the first time. This scenario will evolve over future stress and scenario exercises, informed by the work of the wider group in this area.

C.7.5 BREXIT

The impact of Brexit is expected to be very limited as the Company does not export products and services to EU countries nor does it have a material exposure to currency or interest rate risks. Macroeconomic impacts on existing trade receivable recoverability are expected to be immaterial.

BGIL's highly liquid assets and low risk investment strategy ensure that BGIL is resilient to unexpected economic downturn. Over the longer term, a prolonged period of uncertainty and a dampened economy may have an adverse impact on sales and growth. BGIL continues to carefully monitor Brexit developments.

D VALUATION FOR SOLVENCY PURPOSES

(Audited)

The Company's annual financial statements are prepared under UK GAAP. The balance sheet on a UK GAAP basis and the Solvency II basis is shown below.

Balance sheet as at 31 December	2019 UK GAAP value £m	2019 SII value £m	2019 Difference £m	2018 UK GAAP value £m	2018 SII value £m	2018 Difference £m
Assets						
Deferred acquisition costs	243.7	0.0	(243.7)	233.5	0.0	(233.5)
Investments						
Collective investment undertakings	168.6	168.6	0.0	129.7	129.7	0.0
Cash deposits	0.0	0.0	0.0	40.0	40.3	0.3
Insurance &intermediaries receivables	534.0	0.0	(534.0)	555.6	1.4	(554.2)
Cash and cash equivalents	0.1	0.1	0.0	0.2	0.2	0.0
Any other assets, not elsewhere shown	1.3	0.0	(1.3)	1.0	0.0	(1.0)
Total assets	**947.8**	**168.7**	**(779.1)**	**960.0**	**171.6**	**(788.3)**
Liabilities						
Technical provisions	(546.8)	17.6	564.4	(562.6)	22.3	584.9
Deferred tax liabilities	0.0	(7.8)	(7.8)	0.0	(6.6)	(6.6)
Insurance &intermediaries payables	(255.9)	0.0	255.9	(238.3)	0.0	238.3
Any other liabilities, not elsewhere shown	(35.9)	(35.9)	0.0	(36.2)	(36.2)	0.0
Total liabilities	**(838.5)**	**(26.1)**	**812.5**	**(837.1)**	**(20.5)**	**816.6**
Excess of assets over liabilities/own funds	**109.2**	**142.6**	**33.4**	**122.9**	**151.1**	**28.2**

Units in collective investment undertakings are available for sale and are recorded on the balance sheet at fair value. The UK GAAP valuation is consistent with Solvency II requirements and so there is no difference between the two bases.

Under Solvency II, UK GAAP unearned premium provision, deferred acquisition costs and insurance debtors and creditors that are not past due are removed from the balance sheet and replaced with Solvency II provisions, such as premium provisions and risk margin. The difference between UK GAAP and Solvency II gives rise to a reconciliation reserve to which deferred tax is applied at the prevailing rate. Further detail on the calculation of technical provisions is included in section D.2.

D.1 ASSETS

D.1.1 VALUE OF ASSETS

Assets as at 31 December	2019 £m	2018 £m
Collective investment undertakings	168.6	129.7
Cash deposits	0.0	40.3
Insurance and intermediaries receivables	0.0	1.4
Cash and cash equivalents	0.1	0.2
Total assets	**168.7**	**171.6**

The small decrease in assets over the year reflects the stable nature of the business.

Information about cash deposits is included in section A.3.

D.1.2 BASIS OF VALUATION

Collective investment undertakings comprise units in short term money market funds. They are classed as low volatility net asset value (LNAV) funds working within a very narrow bid and offer spread. Units in the funds are valued at the quoted market price at 31 December.

The cash and cash equivalents balance represents on demand balances with financial institutions at fair value. All investments are denominated in sterling.

D.2 TECHNICAL PROVISIONS

D.2.1 VALUE OF TECHNICAL PROVISIONS

Non-life technical provisions as at 31 December	2019 £m	2018 £m
Premium provisions	(41.2)	(36.1)
Claims provisions	18.9	8.9
Best estimate liabilities	**(22.3)**	**(27.1)**
Risk margin	4.7	4.8
Technical provisions	**(17.6)**	**(22.3)**

Premium provisions are a negative liability reflecting the expectation that bound business at 31 December 2019 will be profitable and that customers pay premium by instalments. Furthermore, BGIL generally settles claims within a few days, leading to low claims provisions and a negative liability for technical provisions overall.

The increase in claims provisions is mainly due to more profit commission payable to BGSL at year-end resulting from higher profits in 2019 than 2018. Non-settled profit commission is included within the intercompany balance element of the claims provisions.

The change in premium provisions is due in part to revised contractual arrangements with BGSL. There has also been a refinement in the method and assumptions used to derive the underlying cash flows.

D.2.2 BASIS OF VALUATION

Technical provisions are defined as the discounted probability-weighted average of future cash flows. Discounting is based on EIOPA's risk free rate but has minimal impact for BGIL. Technical provisions consist of claims provisions, premiums provisions and a risk margin.

Claims Provisions

Claims provisions are the discounted best estimate of all future cashflows relating to claims events prior to the valuation date.

Claims provisions consist of outstanding claims and IBNR and include the intercompany balance at the year-end. Outstanding claims are based on claims volumes outstanding and contractual amounts due at the valuation date. IBNR relates to estimated claims that have occurred but have not yet been notified. Information on the intercompany balance is included in section C.3.1. Given the short-tailed nature of claims, there is no allowance for ENID within claims provisions.

Premium Provisions

Premium provisions are the discounted best estimate of all future cashflows relating to future exposure arising from policies for which BGIL has an obligation to at the valuation date.

BGIL has used a simplified method to determine its premium provision, proportionate to underlying risks and taking account of Article 56 [Proportionality] of the Solvency II Delegated Act and the technical provisions requirements of PRA Supervisory Statement SS5/14.

Business plan loss ratios are used to calculate expected future profits in respect of policies in force. Allowance is also made for BBNI policies which BGIL have not incepted at the valuation date but for which BGIL has an obligation to provide insurance cover, such as issued renewals. A deduction is made for mid-term cancellations on in-force policies and renewal lapses on policies invited but not taken up.

The premium provisions include an allowance for ENID, which is based on a consideration of adverse scenarios.

Risk Margin

The risk margin increases the overall value of the technical provisions from the discounted best estimate to an amount equivalent to a theoretical level needed to transfer the obligations to another insurance undertaking.

The risk margin is estimated by applying a 6% (determined by EIOPA) cost of capital charge to the sum of the present value of the entire projected SCR in each future year of exposure. Solvency II allows the use of a partial SCR in the calculation, but the use of the full SCR is considered to be appropriate and proportionate given BGIL's risk profile.

Expenses

Solvency II requires all future expenses incurred in fulfilling existing insurance contracts to be taken into account. The table below illustrates the types of expenses included in claims and premium provisions.

Expense Type	Claims provisions	Premium provisions
Administration		✓
Claims management	✓	✓
Acquisition		✓

D.2.3 MATERIAL CHANGES TO ASSUMPTIONS

There have been no material changes to assumptions.

D.2.4 UNCERTAINTY

The Actuarial Function calculate the uncertainty in the technical provisions which exists in the form of potential variability in IBNR estimates, outstanding claims, and premium provision. Additionally, ENID and BBNI are naturally subject to a degree of uncertainty. The short tail and stable nature of BGIL's insurance activities results in low levels of both absolute technical provisions and their uncertainty.

D.3 OTHER LIABILITIES

Other liabilities as at 31 December	2019 £m	2018 £m
Insurance premium tax (IPT)	30.9	31.2
Group relief tax creditor	4.0	4.0
Sundry accruals	0.9	0.7
Other creditors	0.1	0.3
Any other liabilities, not elsewhere shown	**35.9**	**36.2**

The group relief tax creditor relates to corporation tax of £16.2m. A payment on account of £12.2m was made during 2019 leaving £4.0m to be settled in 2020, as shown in the table.

D.4 ALTERNATIVE METHODS FOR VALUATION

Alternative methods of valuation for assets and liabilities permitted under EIOPA Delegated Act Article 296(4) are not applied.

D.5 ANY OTHER INFORMATION

BGIL does not use the following adjustments:

- The matching adjustment referred to in Article 77b of the Solvency II Directive.
- The volatility adjustment referred to in Article 77d of the Solvency II Directive.
- The transitional risk-free interest rate term structure referred to in Article 308c of the Solvency II Directive.
- The transitional deduction referred to in Article 308d of the Solvency II Directive.

BGIL has no reinsurance contracts and does not use special purpose vehicles and therefore has no recoverables from these arrangements.

E CAPITAL MANAGEMENT

(E1, E5, E6: audited, E2 – E4: unaudited)

E.1 OWN FUNDS

BGIL's objective is to maintain appropriate levels of capital to meet claims as they fall due, protect the interests of customers and meet operating needs and regulatory requirements.

E.1.1 SUMMARY OF OWN FUNDS

Eligible own funds represent Solvency II net assets less foreseeable dividends approved by the Board, but not paid at 31 December. The foreseeable dividend of £39m (2018: £47m) was approved on 30 April 2020 and is due to be paid in June 2020. The Company has the right to cancel (or defer) dividend payments or other distributions after declaration at any time prior to payment.

Own funds at 31 December	£m £m	£m £m
Excess of assets over liabilities (section D)	142.6	151.1
Foreseeable dividends	(39.0)	(47.0)
Eligible own funds (tier 1)	**103.6**	**104.1**
Of which:		
Ordinary share capital (fully paid)	5.0	5.0
Reconciliation reserve	98.6	99.1

The Solvency II reconciliation reserve represents own funds less share capital and foreseeable dividends.

The analysis of change of own funds over the year is as follows:

Analysis of change of own funds	2019 £m	2018 £m
Own funds at start of year	151.1	166.4
Foreseeable dividend (paid in May)	(47.0)	(56.0)
Eligible own funds at start of year	**104.1**	**110.4**
Increase in own funds during the year	74.5	60.7
December dividend paid	(36.0)	(20.0)
Foreseeable dividend	(39.0)	(47.0)
Eligible own funds at end of year	**103.6**	**104.1**

All own funds at 31 December 2019 and 31 December 2018 meet the criteria to be classified as Tier 1 unrestricted basic own funds as set out in Article 71 of the Solvency II Delegated Act:

- The own funds are immediately available to absorb losses.
- They are undated so there is no obligation for repayment.
- Dividends are approved by the Board and can be cancelled at any time prior to payment.
- There are no mandatory servicing costs.

There are no significant restrictions affecting the availability and transferability of own funds within BGIL.

All eligible own funds are available to cover the SCR (section E.2.7) and the MCR (section E.2.8).

E.1.2 CAPITAL MANAGEMENT POLICY

A business plan is prepared at least annually. The plan includes a projection of own funds and SCR over the three-year forward-looking period. Monthly actual positions are reported against the plan. Forecast updates are prepared in the event of any significant deviation from the plan or material changes in business strategy.

Capital resources are managed in accordance with the Capital Management Policy, which is reviewed by the Board on an annual basis. The key objective is to maintain sufficient own funds to safeguard the Company's ability to continue as a going concern and to protect the interests of customers, investors and regulators while also efficiently deploying own funds and managing risk to sustain ongoing business development. Own funds are regularly monitored, and management intervention and actions are required at particular thresholds.

BGIL's approach at year-end is to distribute excess audited and approved own funds to its parent company, subject to ongoing business performance being within risk appetite, specific requirements as detailed in BGIL's Dividend Policy, and other relevant factors. Excess own funds may be distributed at other times throughout the year, in accordance with BGIL's Dividend Policy, and following Board approval.

E.1.3 DIFFERENCE BETWEEN EQUITY IN FINANCIAL STATEMENTS AND EXCESS OF ASSETS OVER LIABILITIES

The following table shows the differences between the equity in the financial statements, calculated on a UK GAAP basis, and the excess of assets over liabilities (own funds) calculated on a Solvency II basis.

UK GAAP to SII as at 31 December	2019 £m	2018 £m
Equity in the financial statements/shareholders funds	**109.2**	**122.9**
Remove UK GAAP insurance balances	4.7	3.5
Add Solvency II balances:		
Premium provisions	41.2	36.1
Risk margin	(4.7)	(4.8)
Tax on reconciliation reserve	(7.8)	(6.6)
Excess of assets over liabilities/own funds	**142.6**	**151.1**
Foreseeable dividend	(39.0)	(47.0)
Eligible own funds (tier 1)	**103.6**	**104.1**

E.1.4 ANY OTHER INFORMATION

There are no basic own fund items subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of the Solvency II Directive.

BGIL does not have any ancillary own funds.

There are no significant restrictions affecting the availability and transferability of own funds within the undertaking.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The SCR represents the level of eligible own funds required to provide assurance that the Company can absorb significant losses in 1-in-200 year scenarios and still meet policyholders' claims costs and other obligations as they fall due.

E.2.1 PARTIAL INTERNAL MODEL

BGIL calculates its SCR using a partial internal model. The internal model is used for insurance risk, operational risk and counterparty risk, with the Standard Formula used for market risk and aggregation across risk types.

Uses

The partial internal model is also used in the ongoing management of the business as follows:

- For capital management purposes including determining the level of dividends and defining an appropriate solvency capital margin.
- In the ORSA process and report.
- To assess reinsurance requirements (currently no reinsurance is purchased).
- Setting net premium rates.
- Business planning.
- In stress and scenario testing and reverse stress testing.

Method

The separate risk modules of the model use different methods for the calculation of the probability distribution forecast as follows:

- Underwriting risk:
  - Catastrophe (cold weather) risk: Met Office temperature data and company-specific demand data, together with predictive modelling techniques, are used to create an empirical temperature-demand distribution from which a probability distribution is created.
  - Premium and reserve risk: attritional claims frequency is modelled stochastically.
- Operational risk: several scenarios at various return periods are considered and used to create a probability distribution.
- Counterparty default risk: uses a stochastic model based on internal and external data.

Time Period

Solvency II requires firms to calculate the SCR over the following 12 months (Article 101 of the Solvency II Directive). Alternative methods are possible under Article 122. For BGIL, a bespoke model is used to provide sufficient protection to policyholders, in accordance with Article 122, and as approved by the PRA.

Data

The model uses data from various internal and external sources including:

- Business plan.
- Engineer demand data.
- Met Office temperature data.
- Event loss data.
- Debt recovery rates.

The data is handled in accordance with BGIL's Data Quality Policy which ensures that relevant data is accurate, complete and appropriate, enabling BGIL to effectively manage its business and to meet regulatory and statutory obligations, including the Solvency II data quality standards.

E.2.2 OVERALL SCR

The table below shows BGIL's SCR for each risk module.

Solvency Capital Requirement as at 31 December	2019 £m	2018 £m
Non-life underwriting risk	27.6	32.4
Market risk	1.6	2.2
Counterparty default risk	4.3	5.6
Operational risk	41.5	37.7
Diversification	(3.1)	(4.0)
Total SCR	**71.9**	**73.9**

An increase in operational risk has been more than offset by the decrease in underwriting risk, counterparty default risk and market risk. Further information is included in sections E.2.3 to E.2.6.

No capital add-on is applied to the SCR.

E.2.3 UNDERWRITING RISK

The reduction in underwriting risk in the table below is mainly due to a decrease in policy exposure (section C.1). Premium and reserve risk is net of a profit offset.

Underwriting risk as at 31 December	2019 £m	2018 £m
Premium and reserve risk	1.5	4.2
Catastrophe risk	34.1	37.2
Other non-life underwriting risk	2.2	3.1
Diversification	(10.3)	(12.0)
Total underwriting risk	**27.6**	**32.4**

E.2.4 MARKET RISK

Market risk is calculated using the Standard Formula as it is considered to fairly reflect BGIL's risk profile and capital requirement. No material simplifications permitted in the Standard Formula have been used.

Market risk as at 31 December	2019 £m	2018 £m
Interest rate risk	0.3	0.3
Concentration risk	1.6	2.1
Diversification	(0.3)	(0.3)
Total market risk	**1.6**	**2.2**

The decrease in concentration risk reflects a lower value of funds exceeding the 3% threshold determined in the Standard Formula. BGIL's investments are all sterling-denominated and so there is no currency risk.

Spread risk is not material (<100K).

E.2.5 COUNTERPARTY DEFAULT RISK

The table below shows that there has been a decrease in the quantification of counterparty default risk mainly due to a change in methodology. Further information about counterparty risk is included in section C.3.

Counterparty default risk (credit risk) as at 31 December	2019 £m	2018 £m
Total counterparty default risk	**4.3**	**5.6**

E.2.6 OPERATIONAL RISK

The table below shows the operational risk has increased. This is mainly due to the increase in change management risk. Further information about operational risk is included in section C.5.

Operational risk as at 31 December	2019 £m	2018 £m
Total operational risk	**41.5**	**37.7**

E.2.7 RATIO OF ELIGIBLE OWN FUNDS TO SCR

Solvency II surplus as at 31 December	2019 £m	2018 £m
Eligible own funds (tier 1)	103.6	104.1
Solvency Capital Requirement	71.9	73.9
Solvency II surplus	**31.7**	**30.2**
Ratio of eligible own funds to SCR	**144%**	**141%**

E.2.8 MINIMUM CAPITAL REQUIREMENT

BGIL is required to report the MCR which is a regulatory figure representing the absolute minimum level below which own funds should not fall. While the SCR is driven by a bespoke, PRA-approved model designed to reflect BGIL's risk profile, the MCR calculation is a linear formula based on GWP and technical provisions and is subject to a defined floor of 25% of SCR and a cap of 45% of SCR. As such, caution needs to be exercised when comparing with BGIL's SCR, or with the MCR of other companies.

The MCR (based on 45% of SCR) and capital coverage of the MCR is shown below. All of BGIL's own funds are classed as Tier 1 and are therefore available to meet the MCR.

Capital coverage of MCR as at 31 December	2019 £m	2018 £m
Eligible own funds (tier 1)	103.6	104.1
MCR	32.4	33.3
Ratio of eligible own funds to MCR	**320%**	**313%**

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SCR

The duration-based equity risk sub-module in the calculation of the SCR is not used.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND PARTIAL INTERNAL MODEL

The following table shows how BGIL's SCR calculated using the PRA-approved partial internal model compares with the calculation using the Standard Formula.

Comparison with Standard Formula as at 31 December	2019 Standard Formula £m	2019 Partial Internal Model £m	2019 Difference £m	2018 Standard Formula £m	2018 Partial Internal Model £m	2018 Difference £m
Non-life underwriting risk	276.6	27.6	(249.1)	281.7	32.4	(249.3)
Market risk	1.6	1.6	0.0	2.2	2.2	0.0
Counterparty default risk	0.0	4.3	4.3	0.3	5.6	5.3
Diversification	(1.2)	(3.1)	(1.8)	(1.8)	(4.0)	(2.2)
Basic solvency capital requirement	**277.0**	**30.4**	**(246.6)**	**282.4**	**36.2**	**(246.2)**
Operational risk	30.4	41.5	11.1	30.7	37.7	7.0
Solvency Capital Requirement	**307.4**	**71.9**	**(235.5)**	**313.1**	**73.9**	**(239.2)**

The Standard Formula for underwriting risk produces a capital requirement higher than under BGIL's internal model due to material differences in the assumptions used by EIOPA in the Standard Formula and those used in BGIL's internal model. The internal model better reflects BGIL's low underwriting risk characterised by the short tail nature of the business and contractually fixed unit claims costs.

Counterparty default risk calculated using the Standard Formula is negligible and does not adequately reflect BGIL's business relationship with BGSL. Under the Standard Formula calculation, operational risk capital is based on gross earned premium at the year-end and does not adequately reflect BGIL's risk profile. BGIL's partial internal model uses the Standard Formula to calculate market risk as this is considered to fairly reflect BGIL's risk profile.

No material simplifications have been made, and BGIL does not use any undertaking-specific parameters, within the Standard Formula calculation.

E.5 NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

BGIL has maintained sufficient own funds to meet both the SCR and the MCR throughout the reporting period.

E.6 ANY OTHER INFORMATION

There is no other material information to report.

F APPENDIX: POST BALANCE SHEET EVENTS (CORONAVIRUS)

(Unaudited)

Subsequent to the date of reporting of 31 December 2019, there has been a global pandemic ("Covid-19"). This has resulted in the Coronavirus Act 2020 which places wide-ranging restrictions on freedom of movement in the UK. The Covid-19 situation is considered a 'major development' under Article 54(1) of the Solvency II Directive. While it does not affect the financial position as at 31 December 2019 and therefore is a non-adjusting event, this section provides additional information on its impact on BGIL.

F.1 BUSINESS AND PERFORMANCE

BGIL continue to underwrite general insurance risks in the UK, within the assistance class of business (section A.1.1). BGIL and BGSL are focussed on looking after the health and safety of employees and customers. Relevant advice from the government and health organisations is being followed and non-essential customer visits have been stopped to minimise contact, until such advice concludes otherwise. BGSL's service engineers continue to support core insurance activities including emergencies where a customer has no heating or hot water.

The Company's operational resilience is supported by Centrica's Global Crisis Management team, which is operating a Pandemic Management Framework supported by existing business continuity plans. Current activity is centred around enabling and protecting BGSL's call centre agents and field engineers with significantly increased home working capabilities for non-field staff, avoiding major disruption to business support. The Company's executive team meets frequently to review response plans and assess the latest government policy and guidance. While the situation is continually evolving, risks are being monitored and the business remains focussed on ensuring continuity of service while supporting customers and employees.

BGIL is regulated by the PRA and authorised by the PRA and FCA (section A.1.1) and is maintaining dialogue with the regulators throughout the crisis. There is also regular engagement with the Board.

It is too early to determine the impact on profitability but given the nature of the business, it is expected that BGIL will continue to be profitable in 2020.

F.2 RISK PROFILE

Operational risk and underwriting risk (cold weather) are BGIL's key risks. Cold weather risk is not directly affected, but like many companies, BGIL's operational risks have increased in the short-term. The operational risks underlying the SCR (1-in-200 return period) have been reviewed and Covid-19 is considered to be captured adequately by the existing operational risk scenarios.

BGIL is exposed to counterparty default risk through its relationship with BGSL, which is also a subsidiary of Centrica. Centrica's credit rating is a key driver of BGIL's assessment of counterparty default risk. Centrica's Board remain committed to maintaining a strong balance sheet and in March 2020, both Moody's and S&P (credit rating agencies) rated Centrica as 'stable'. The developing situation is likely to impact the cash flows between BGIL and BGSL, affecting the amount of intercompany balance owed to BGIL by BGSL each month, which will continue to be monitored.

Market risk and liquidity risk are being carefully monitored but remain low.

F.3 VALUATION OF ASSETS AND LIABILITIES

Covid-19 has caused widespread disruption to businesses and economic activity. This has caused fluctuations in the UK and global financial markets. BGIL invests in sterling-denominated money market funds which have been largely unaffected by the recent adverse movements in equity markets.

The short tail and stable nature of BGIL's insurance activities results in low levels of both absolute technical provisions and their uncertainty. Technical provisions are not expected to be affected by interest rate movements.

While no material impact to the overall balance sheet is expected over the near-term, premium and claims profiles are being closely monitored. Given the inherent uncertainty in the evolving situation, the financial impacts of Covid-19 are difficult to quantify at this stage but the balance sheet position remains strong.

F.4 CAPITAL MANAGEMENT

At 30 April 2020, analysis of the SCR in light of the pandemic confirmed that the SCR of £71.9m remained appropriate.

BGIL holds capital to cover a 1-in-200 operational risk event as well as additional capital above the regulatory solvency capital requirement in order to be resilient in a range of stress scenarios. Stresses considered include a cold weather event such as the 'Beast from the East' that occurred in 2018, and a 1-in-100 operational risk event.

The payment of the foreseeable dividend of £39m was scrutinised in detail by management and the Board. Following the outcome of stress and scenario testing, and given BGIL's strong financial position, on 30 April the Board approved a dividend of £39m due to be paid in June 2020.

BGIL's solvency position remains robust after payment of the dividend and within Board-approved risk appetite for capital and liquidity.

G GLOSSARY

Term	Meaning within document
BBNI	Bound But Not Incepted
BGIL or the Company	British Gas Insurance Limited
BGSL	British Gas Services Limited
COR	Combined Operating Ratio
CRO	Chief Risk Officer
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events Not In Data
EPIFP	Expected Profit in Future Premium
FCA	Financial Conduct Authority
GBGH	GB Gas Holdings Limited
GWP	Gross Written Premium
IBNR	Incurred But Not Reported
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Assessment
PRA	Prudential Regulation Authority
PIM	Partial Internal Model
SCR	Solvency Capital Requirement
Solvency II Directive	Directive 2009/138/EC of the European Parliament and of the Council
Solvency II Delegated Act	Commission Delegated Regulation (EU) 2015/35
UK GAAP	UK Generally Accepted Accounting Practice

British Gas Insurance Limited

Solvency and Financial Condition Report

Disclosures

31 December

2019

(Monetary amounts in GBP thousands)

General information

Undertaking name	British Gas Insurance Limited
Undertaking identification code	213800QKXD83EEO79W25
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Partial internal model
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	168,560
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	168,560
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	0
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	147
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	168,707

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	-17,602
R0520	*Technical provisions - non-life (excluding health)*	-17,602
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	-22,295
R0550	*Risk margin*	4,693
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	7,832
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	35,855
R0900	**Total liabilities**	26,085
R1000	**Excess of assets over liabilities**	142,622

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business											997,522						997,522
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share																	0
R0200	Net											997,522						997,522
	Premiums earned																	
R0210	Gross - Direct Business											1,011,846						1,011,846
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share																	0
R0300	Net											1,011,846						1,011,846
	Claims incurred																	
R0310	Gross - Direct Business											406,467						406,467
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share																	0
R0400	Net											406,467						406,467
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net											0						0
R0550	**Expenses incurred**											489,894						489,894
R1200	**Other expenses**																	31,376
R1300	**Total expenses**																	521,270

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	997,522						997,522
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share							0
R0200	Net	997,522						997,522
	Premiums earned							
R0210	Gross - Direct Business	1,011,846						1,011,846
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share							0
R0300	Net	1,011,846						1,011,846
	Claims incurred							
R0310	Gross - Direct Business	406,467						406,467
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share							0
R0400	Net	406,467						406,467
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0						0
R0550	**Expenses incurred**	489,894						489,894
R1200	**Other expenses**							31,376
R1300	**Total expenses**							521,270

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**											0						0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross											-41,166						-41,166
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0150	**Net Best Estimate of Premium Provisions**											-41,166						-41,166
	Claims provisions																	
R0160	Gross											18,872						18,872
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0250	**Net Best Estimate of Claims Provisions**											18,872						18,872
R0260	**Total best estimate - gross**											-22,295						-22,295
R0270	**Total best estimate - net**											-22,295						-22,295
R0280	**Risk margin**											4,693						4,693
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**											-17,602						-17,602
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**											0						0
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**											-17,602						-17,602

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 **Accident year / underwriting year** Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	**Development year**											**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	2010	192,373	5,153	0	0	0	0	0	0	0	0		0	197,526
R0170	2011	525,073	4,585	0	0	0	0	0	0	0			0	529,658
R0180	2012	544,973	6,819	0	0	0	0	0	0				0	551,792
R0190	2013	561,863	6,777	0	0	0	0	0					0	568,640
R0200	2014	523,184	7,715	0	0	0	0						0	530,898
R0210	2015	506,000	4,495	0	0	0							0	510,495
R0220	2016	485,542	5,811	0	0								0	491,353
R0230	2017	472,645	7,423	0									0	480,069
R0240	2018	508,033	5,566										5,566	513,599
R0250	2019	452,370											452,370	452,370
R0260												**Total**	457,936	4,826,400

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	**Development year**											**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	2010	0	0	0	0	0	0	0	0	0	0		0
R0170	2011	0	0	0	0	0	0	0	0	0			0
R0180	2012	0	0	0	0	0	0	0	0				0
R0190	2013	0	0	0	0	0	0	0					0
R0200	2014	0	0	0	0	0	0						0
R0210	2015	0	0	0	0	0							0
R0220	2016	0	0	0	0								0
R0230	2017	0	0	0									0
R0240	2018	0	0										0
R0250	2019	18,878											18,872
R0260												**Total**	18,872

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	5,000	5,000		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	98,622	98,622			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	103,622	103,622	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	103,622	103,622	0	0	0
R0510	Total available own funds to meet the MCR	103,622	103,622	0	0	
R0540	Total eligible own funds to meet the SCR	103,622	103,622	0	0	0
R0550	Total eligible own funds to meet the MCR	103,622	103,622	0	0	
R0580	**SCR**	71,912				
R0600	**MCR**	32,360				
R0620	**Ratio of Eligible own funds to SCR**	144.10%				
R0640	**Ratio of Eligible own funds to MCR**	320.21%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	142,622
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	39,000
R0730	Other basic own fund items	5,000
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	98,622
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	-44,108
R0790	**Total Expected profits included in future premiums (EPIFP)**	-44,108

S.25.02.21

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

USP Key

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

USP Key

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
	C0010	C0020	C0030	C0070	C0090	C0120
1	50100I	Premium risk	1,473	1,473	9	
2	50300I	non-life catastrophe risk	34,117	34,117	9	
3	50500I	Other non-life uw risk	2,219	2,219	9	
4	55900I	non-life uw diversification	-10,252	-10,252	9	
5	10200I	Interest rate risk	342		9	
6	10700I	Spread risk	23		9	
7	10800I	Concentration risk	1,605		9	
8	19900I	Market risk - Diversification	-328		9	
9	20100I	Counterparty default risk	4,284	4,284	9	
10	70100I	Operational risk	41,505	41,505	9	

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	85,567
R0060	Diversification	-13,655
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	71,912
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	71,912
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	0
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	86,622

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	0	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	1,019,082
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	86,622
R0310	SCR	71,912
R0320	MCR cap	32,360
R0330	MCR floor	17,978
R0340	Combined MCR	32,360
R0350	Absolute floor of the MCR	2,153
R0400	**Minimum Capital Requirement**	32,360